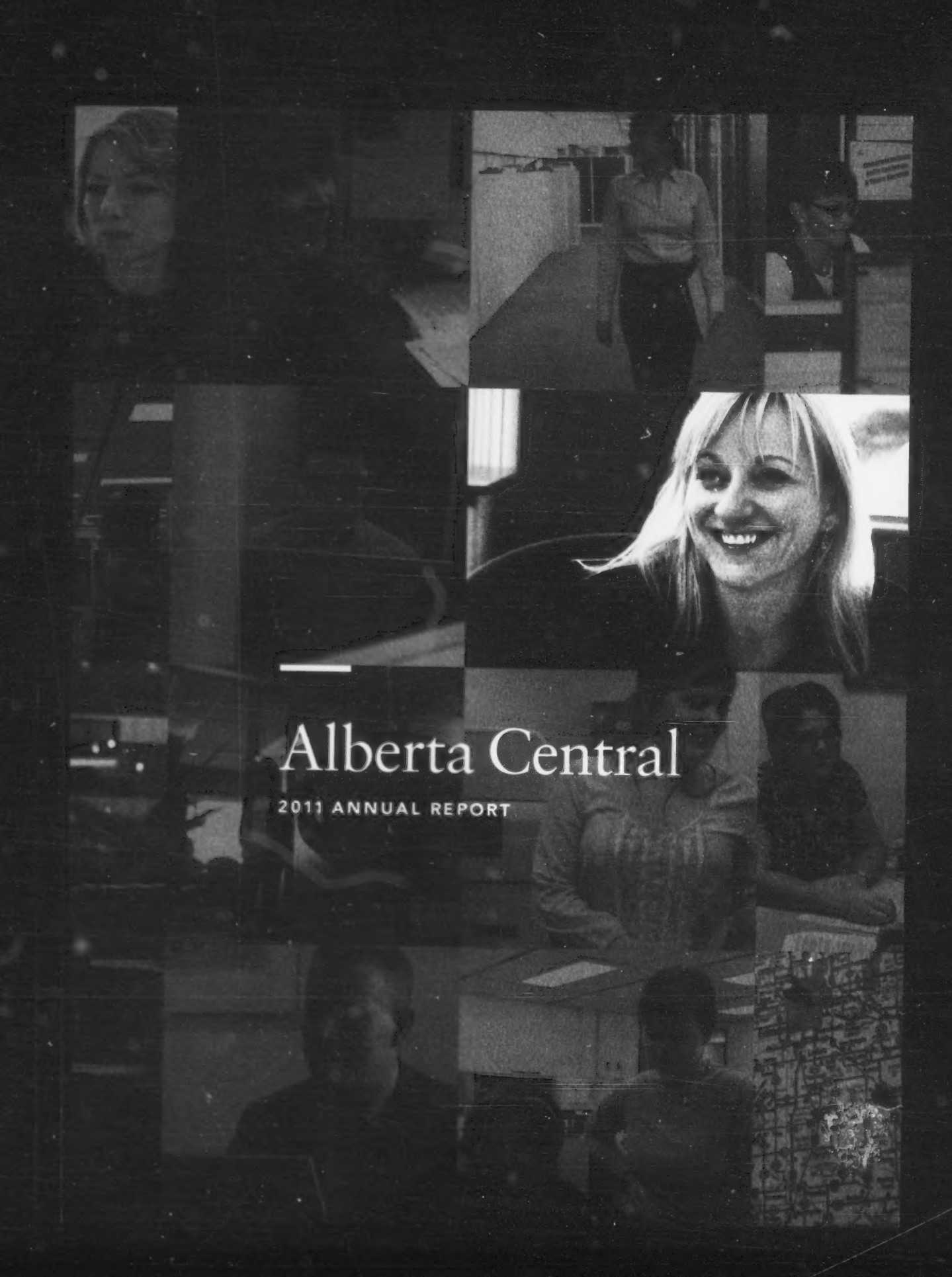

Alberta Central

2011 ANNUAL REPORT

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Front and back cover: Alberta Central employees

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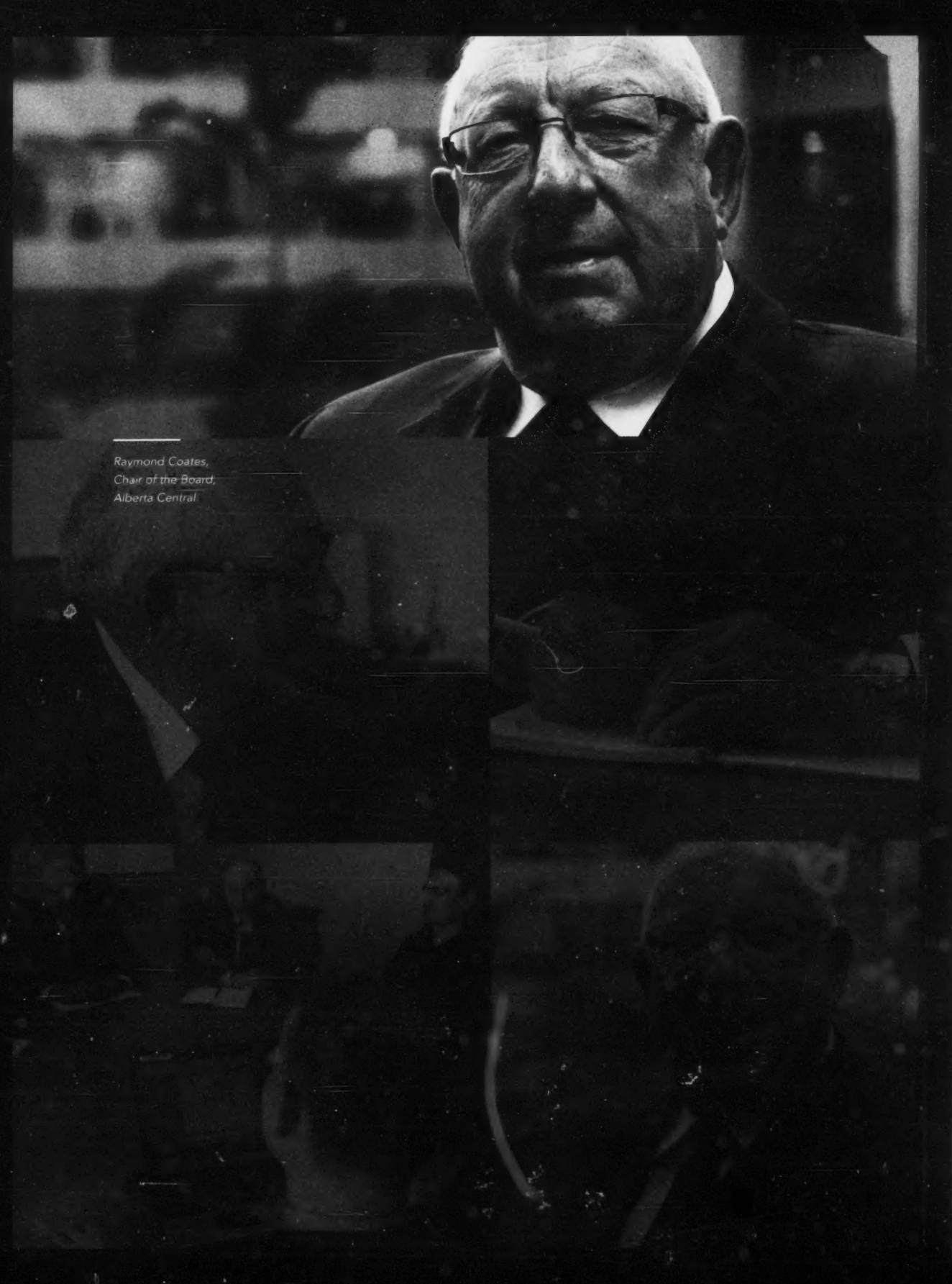

Raymond Coates,
Chair of the Board,
Alberta Central

Throughout our history, Alberta Central has recognized the need to proactively respond to changes occurring in the financial services industry. The past year was no different as we continued to see our credit unions' needs expand and become increasingly complex in response to a variety of factors including economic instability, increased competition and evolving consumer demands.

As a central, we take seriously the role we play in supporting the market success of credit unions. As such, the board made it a key priority for 2011 to review and clearly define exactly what that role was. Overall, the board agreed that Alberta Central must continue to

be a strong and self-sustaining organization that supports credit unions in the core service areas of liquidity management, payments and trade services.

The board also recognized that in defining this role, we could not ignore the changing credit union landscape. We understood that an important aspect of excellent service delivery was the sustainability and viability of our organization. To that end, in September 2011, management presented the board with various short and long-term strategic options to evaluate which ones would best enable our organization to fulfill our mandate. Ultimately, with the credit union landscape continually

evolving, resulting in larger credit unions with more complex service needs, and small and mid-size credit unions with more traditional needs, the board agreed to explore potential opportunities for collaboration with Central 1 while evaluating other optimization strategies to enhance our capacity in certain areas to better serve credit unions.

Moving forward into 2012, the board and management team will continue to focus on Alberta Central's core business strategies and the identified initiatives that will help us accomplish our most important priority – enhancing the services we offer to credit unions to help them achieve success.

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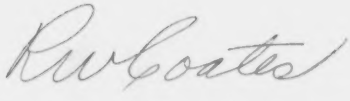
I would like to take this opportunity to acknowledge my fellow board members for their commitment to Alberta Central over the last year. On behalf of the board, I would also like thank the management and staff of Alberta Central for their ongoing dedication to the support of the growth and competitiveness of Alberta credit unions. I am proud to be a part of this organization and I am confident we are well positioned to face the opportunities and challenges of 2012.



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"2011 was a successful year for Alberta Central for several reasons – strong expense management, better than budgeted results from CUPS Payment Services, and significant recoveries in our asset-backed commercial paper portfolio."

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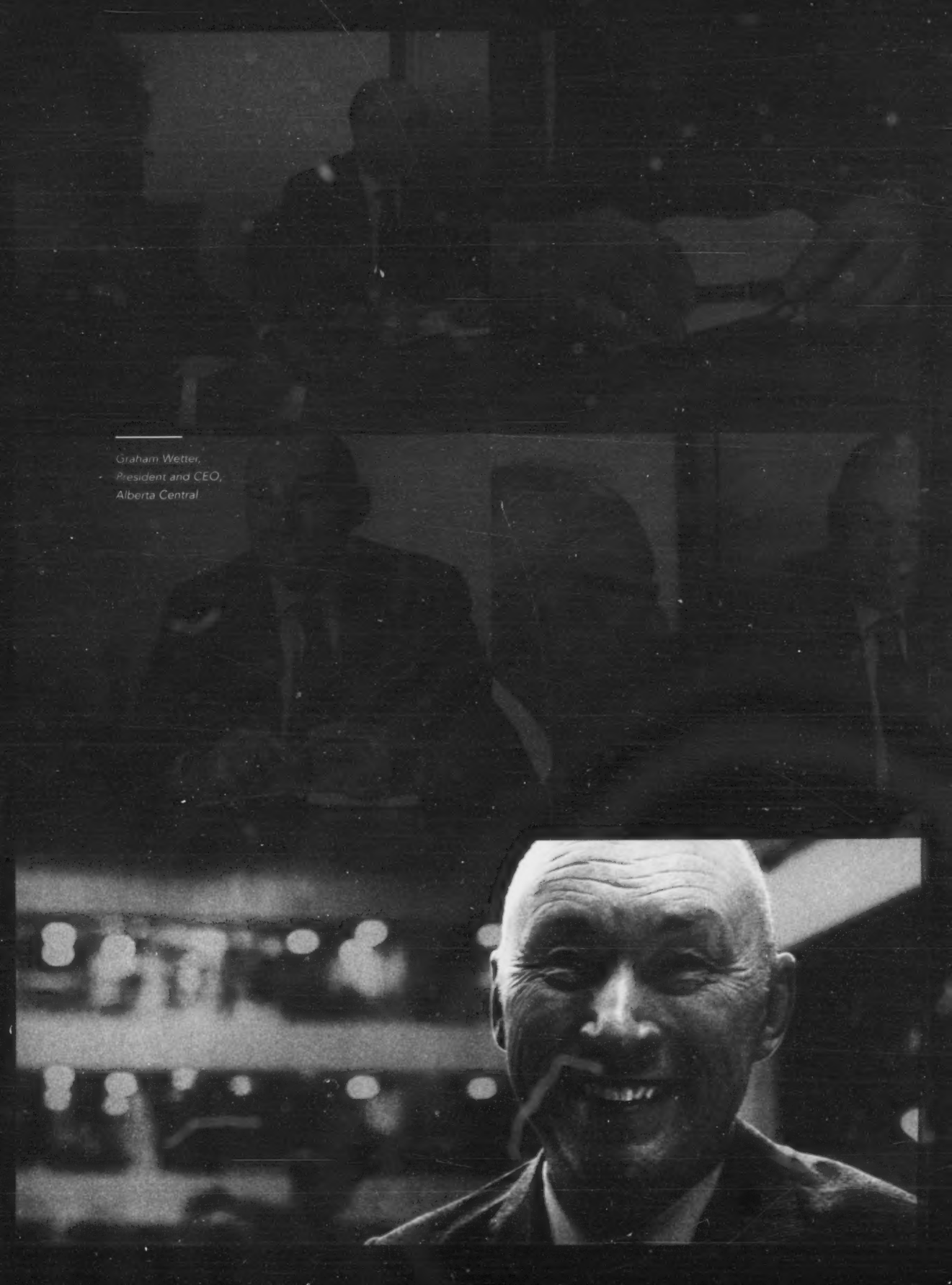

Graham Wetter,
President and CEO,
Alberta Central

The year 2011 for the financial services industry in Canada, and around the world, could accurately be described as one of great change. The sweeping financial crisis over the past few years continued to impact global economic stability creating a ripple effect that shocked a variety of industries. Widespread concern resulted over sovereign debt levels, low interest rates, global growth forecasts being cut back and significant devaluation of world equity markets. As an outcome of this uncertainty, the financial services industry continued to experience challenges evidenced through reduced consumer borrowing, tight liquidity and difficulty achieving profitability and growth. The credit union system

2011 KEY INITIATIVES

Alberta Central worked on various initiatives throughout 2011; some identified on the following pages and in the Credit Union Successes section.

was not immune to the economic stresses and saw persistent pressure on earnings as a result of continued compression in financial margin. Alberta Central experienced the same pressures as credit unions and a range of volatile factors impacted results in 2011.

Despite this, I am pleased to report 2011 was a successful year for Alberta Central for several reasons – strong expense management, better than budgeted results from CUPS Payment Services (CUPS), and significant recoveries in our asset-backed commercial paper (ABCP) portfolio. During 2011, Alberta Central saw net earnings of $9.8 million; CUPS realized their highest profits since the inception of the joint venture, earning $2.4 million due to an increase

1.

PAYMENT SERVICES STRATEGY

In 2011, Alberta Central participated in establishing a joint venture arrangement for the management of the group clearing function among Alberta Central, SaskCentral, Manitoba Central and Central 1. The clearing and settlement of payments items is vital to the competitiveness of the credit union system and establishing a new joint venture ensured the long-term viability of the credit union payments business. The project was a resounding success, completed on time and on budget, with the operational transition of the group clearing functions from Credit Union Central of Canada (CUCC) to the group clearing joint venture occurring seamlessly to credit unions, centrals, other financial institutions, the Bank of Canada, and the Canadian Payments Association.

in volumes during the year and excellent expense management; and Celero Solutions (Celero) achieved financial stability and great success in managing the eroWORKS DNA upgrade for all of its credit union customers.

The year 2011 also witnessed an acceleration of various trends that continued to contribute to the changing landscape of our industry. These included:

CHANGES IN CONSUMER DEMOGRAPHICS AND BEHAVIOUR — with a younger generation of customers, a shift in consumer behaviour continued. Their preference for convenient banking and online accessibility continued to result in ongoing migration out of branches and onto electronic mediums.

2.

CREDIT UNION ENGAGEMENT

Throughout 2011, Alberta Central reviewed how we communicate with our credit unions about what they need from us to help them achieve success. Focusing on the management and delegate level, we reviewed the structure and content of conferences and meetings and existing communication tools, offering increased opportunity to provide feedback on Alberta Central's strategy, products and services.

RAPID AND WIDE-RANGING REGULATORY REFORM — an increase in regulatory requirements occurred around supervision and risk management of the financial services industry. New global standards called for a greater focus on more prudent management of capital and liquidity to increase confidence in the ability of financial institutions to withstand a financial crisis.

INCREASED COMPETITION — a greater number of financial institutions continued to be created in response to consumer demand for more customized products and services and the delivery of these through alternative channels. Increasingly, non-financial institutions continued to ramp up their capability to compete with traditional financial institutions in electronic transaction channels.

3.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) DEVELOPMENT AND BASEL III

Changes to regulatory standards are requiring financial institutions to modify how they manage capital and liquidity. In anticipation of provincial regulator adoption of international regulatory reform related to financial institution capital and liquidity, Alberta Central held several meetings for the Basel III credit union working group, to share a high-level review of Basel III liquidity and capital standards and facilitate discussion among credit unions and their regulators on the potential impact of Basel III standards on Alberta credit unions. In 2011, Alberta Central developed an ICAAP to assist development of appropriate internal capital targets to guide Alberta Central's capital management. Alberta Central's ICAAP model will be shared with credit unions in a learning workshop in early 2012.

INCREASED CONSOLIDATION — in the credit union environment, continued consolidation of credit unions resulted in fewer, but larger, credit unions whose needs differ from their smaller counterparts. For credit union centrals this means continued exploration and evaluation of how to most effectively provide value considering the diverse needs of all credit unions.

With this ongoing transformation of the financial services industry, Alberta Central's challenge and priority over the past year was to help credit unions keep pace with these trends. Excellent progress was made on a variety of initiatives to better support our credit union members in response to the changing landscape.

4.

CENTRAL 1 MERGER DISCUSSIONS

In June 2011, Alberta Central's board of directors reflected on the role and strategic direction of our organization. Agreement on Alberta Central's role and short-term strategy was reached as well as identification of numerous initiatives for improving service delivery. The board also requested further analysis of the organization's long-term strategic options. Of several options, the board agreed to explore potential merger discussions with Central 1. Work on this initiative was subsequently suspended in early 2012 after an assessment of the status of the project determined a merger was not viable in the current environment.

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LOOKING AHEAD TO 2012 — moving forward, Alberta Central recognizes the importance of responding to the ongoing trends in our industry. I believe our 2012 initiatives will help support the sustained growth and market competitiveness of Alberta credit unions by offering the innovative products and quality service our member credit unions deserve.

Graham Wetter
President and CEO,
Alberta Central

5.

ORGANIZATIONAL CULTURE

Ensuring Alberta Central has a supportive and collaborative work environment continued to be a priority in 2011. Enhanced employee learning and leadership development opportunities were focused on throughout the year. Leadership training for managers, in particular, was an integral component of improvements achieved in employee engagement levels, represented by a significant reduction of the overall employee turnover rate.

For Alberta Central, in 2011, our success as an organization was measured by the success of our member credit unions.

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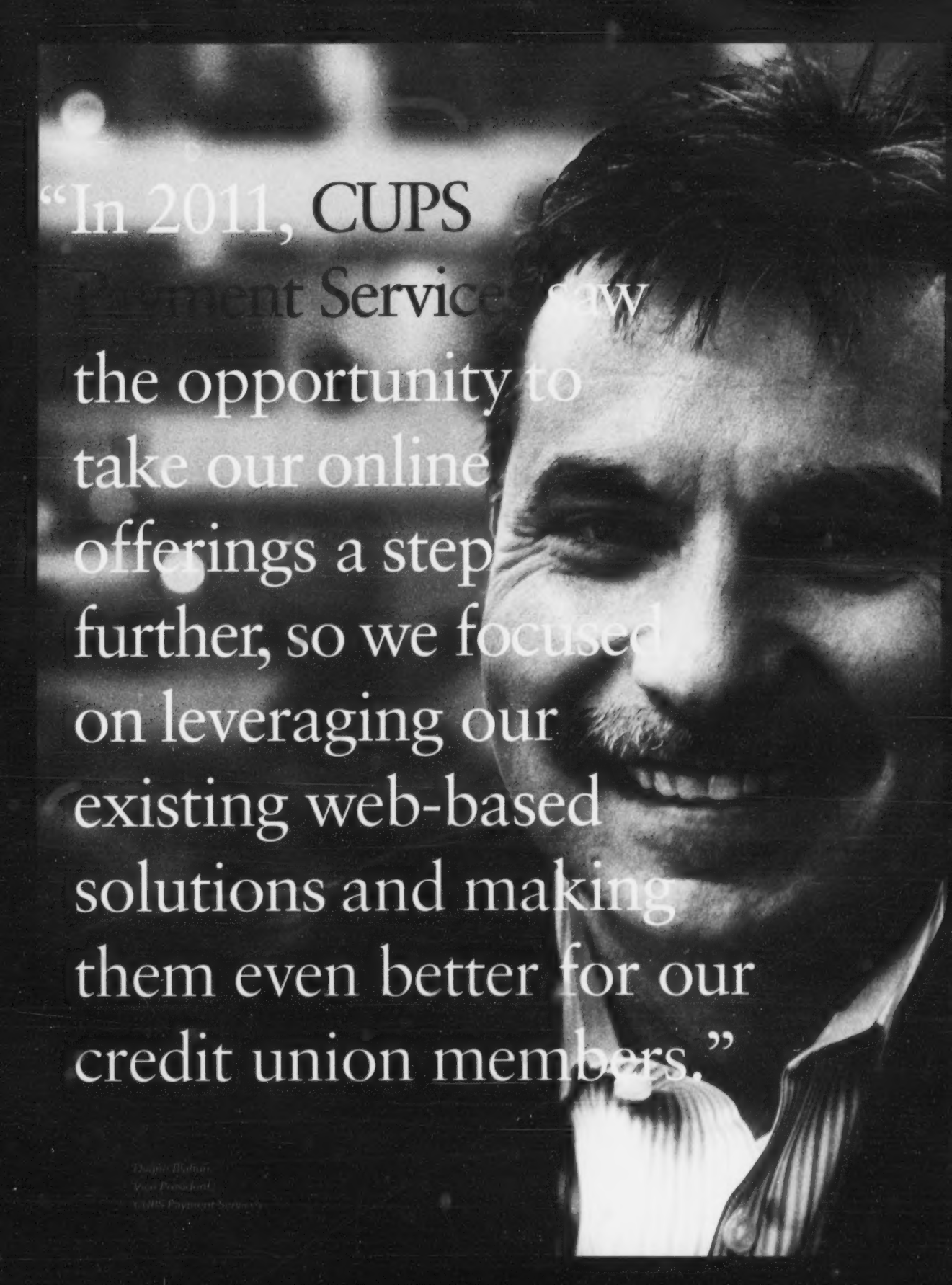
"In 2011, CUPS
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take our online
offerings a step
further, so we focused
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them even better for our
credit union members."

CUPS PAYMENT SERVICES ONLINE SERVICE SOLUTIONS: HELPING CREDIT UNIONS KEEP MEMBER TRANSACTIONS SIMPLE AND EFFICIENT

Credit unions across Alberta are welcoming the ability to access enhanced online service offerings, not only to facilitate growth, but to keep member banking simple and efficient.

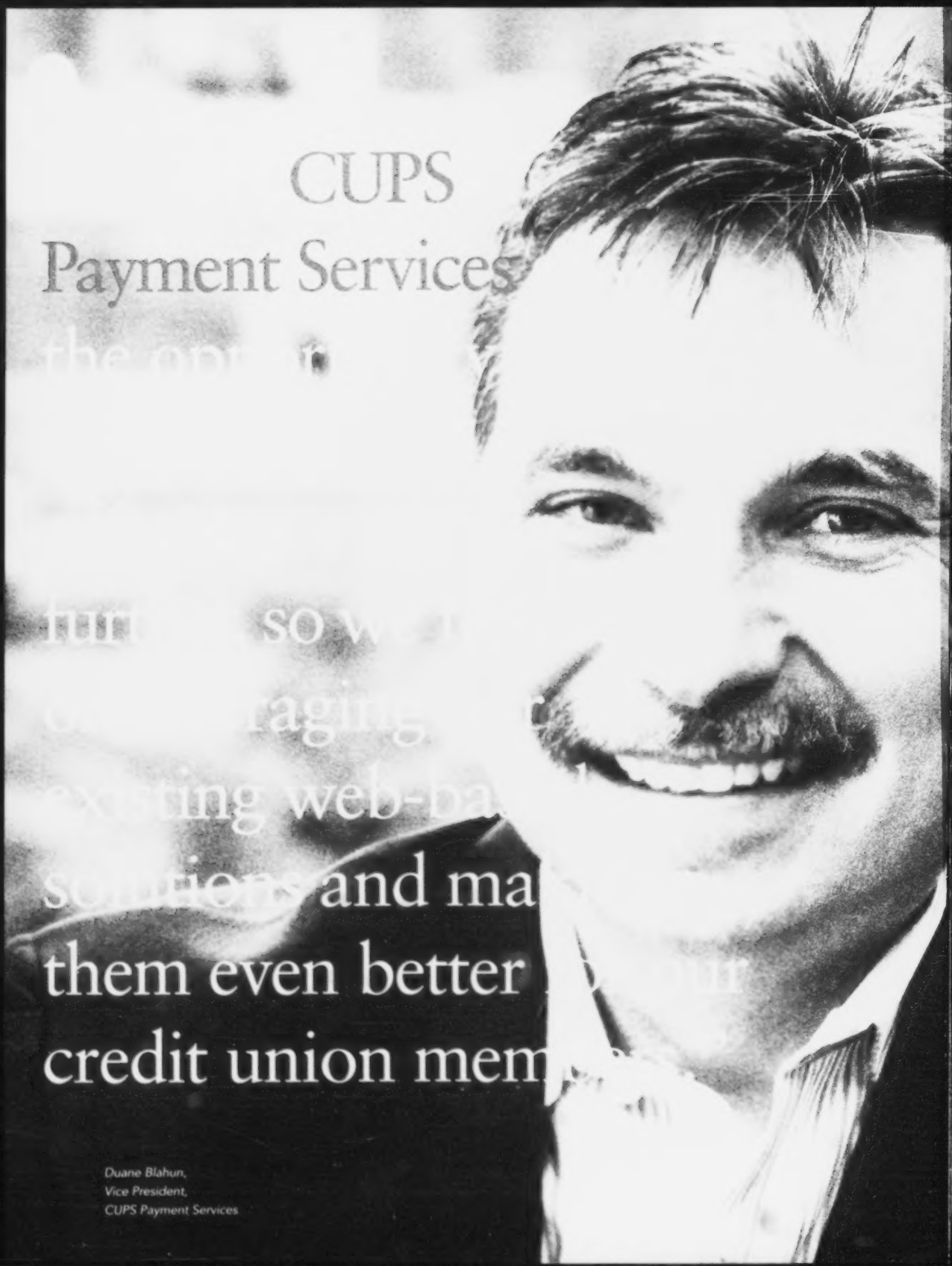
The year 2011 saw a continued evolution toward electronic payments services for business and retail consumers. CUPS responded to that change by continuing to focus on what its credit union customers needed the most – efficient online offerings to enhance the services credit unions provide to their members.

Building on momentum gained in 2010, CUPS continued to focus on its eStatement offerings, enhancing the design of the online statements to include easier-to-read transaction descriptions, page layouts and integrated marketing messages. "When we initially launched our eStatement offering, it was well received by credit unions and members who had been requesting elimination of paper statements," said vice president of CUPS, Duane Blahun. "In 2011, we saw an opportunity to take it a step further, so we focused on leveraging the eStatement platform to improve statement layout and design to incorporate marketing messages and other enhanced capabilities."

For First Calgary Financial's members, eStatements was a welcomed option. "In today's fast paced world, we understand our members need innovative tools to help them manage their finances and information wherever, whenever. The work that CUPS and First Calgary Financial completed in 2011 around implementing eStatements, was very successful. We're seeing increased requests from members to use eStatements as opposed to receiving paper statements. The option to view statements online also creates greater banking accessibility and efficiency," said Debbie Pratt, vice president of Retail Banking, First Calgary Financial.

For Rocky Credit Union, the more online options, the better. "Our business members love us having as many online applications as possible for them to do their business. Rocky Credit Union is known for the personal and convenient service we give them, unlike other financial institutions. CUPS online service solutions help us continue to provide that convenient service," said Tammy Young, vice president of Operations, Rocky Credit Union.

CUPS also made significant progress on a web-based payment solution designed for credit unions, with business members who use the services of the Alberta Gaming and Liquor Commission (AGLC). Service enhancements resulting from the AGLC web-based application include removing manual processes currently used by businesses to pay for supplies ordered from the AGLC, instead offering electronic payments and faster order delivery.



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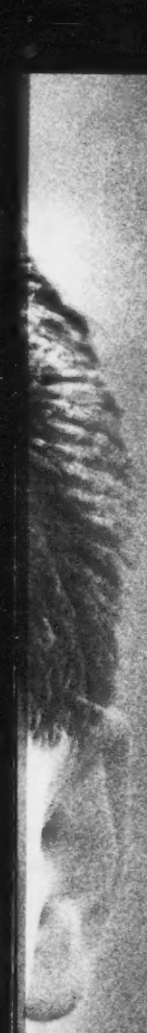

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Benefits of the electronic solutions offered by eStatements and AGLC web-based application.

CREDIT UNION MEMBER BENEFITS

—

eStatements:

- easier, faster access to statements through web-access
- environmental benefits by opting out of paper-based statements

AGLC web-based application:

- easier AGLC purchase process with web-based payment service that enables real time payments
- convenience and security

CREDIT UNION BENEFITS

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eStatements:

- better, more efficient service when members inquire about their accounts. Improved information provides greater clarity and helps reduce routine statement related questions
- reduction in statement production, supplies and postage costs
- ability to integrate marketing messages on eStatements, enhancing effectiveness and reducing marketing costs
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- mitigated risk of statement errors by reducing manual processes and reliance upon machine insertion

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- enhanced service for members who do business with the AGLC
- competitive advantage improved as members do not need to maintain accounts at other financial institutions

Right page: CUPS employees

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Right page: CUPS employees

"The Synovate Banking Awards demonstrate that credit unions can stack up against our much bigger competitors in most financial services categories."

Paul Kelly,
President and CEO,
First Calgary Financial

Credit unions have been putting our members first for decades and for credit unions across Alberta like First Calgary Financial, being awarded for what comes natural – the credit union distinct culture of being member-focused – can only be described as gratifying.

The credit union difference. It lies in the value placed on members and is all about members and setting them up for success.

In 2011, the *Synovate Best Banking Awards* in Canada, an annual award program that recognizes financial institutions with the top ranked customer service, awarded credit unions for the seventh year in a row, for doing what they do best – providing exceptional customer service and valuing business.

Since 1987, Synovate, a global marketing research firm, has conducted a quarterly Customer Service Index (CSI) to generate data for the best banking awards. In 2011, the awards were tabulated from the highly detailed analysis of CSI results from national and regional representative samples that included more than 40,000 households across Canada.

"Winning any award seven times is an accomplishment," says Paul Kelly, CEO of First Calgary Financial. "But credit unions winning the award for *Customer Service Excellence* validates the emphasis credit unions put on member experience and their importance as an owner, not just a customer."

Credit unions also won in the categories: *Financial Planning and Advice* and *Telephone Banking Excellence*.

"The average consumer wants to be treated fairly, respectfully and feel their interests are important to their financial institution," Paul says. "Credit unions deliver because our members have an equal say in the governance of their credit union – members actually have a voice in how their credit union serves their communities. Credit unions are not beholden to institutional shareholders. We truly care about our members' financial well-being."

"The average consumer wants to be treated fairly, respectfully and feel their interests are important to their financial institution."

Paul Kelly,
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ADVANTAGES OF THE CREDIT UNION DIFFERENCE FOR MEMBERS

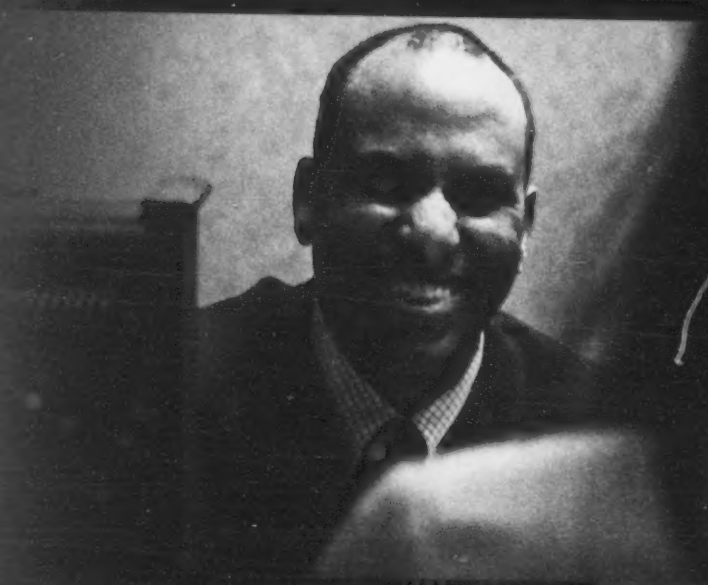
—

- have the opportunity to vote on issues and run for the board of directors
- share in the profits of the credit union
- a "no limit" security of 100 percent guarantee on deposits plus accrued interest

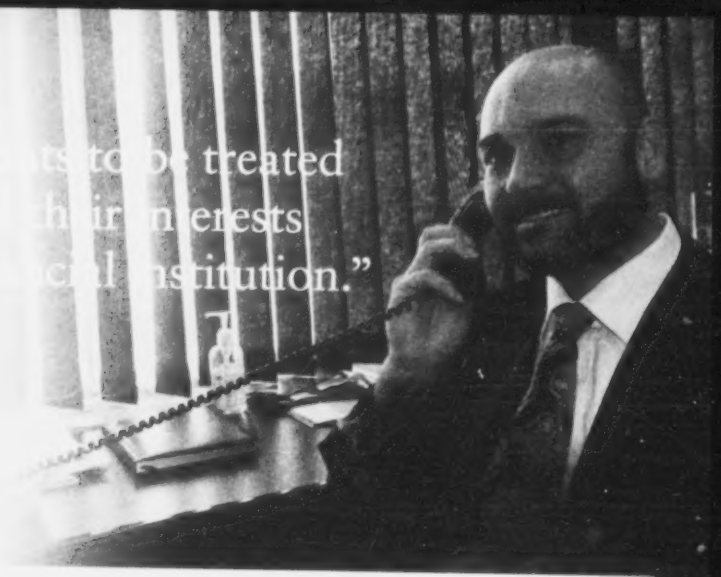
ADVANTAGE OF OPERATING AS A CREDIT UNION

—

- responsive to the individual needs of members and local communities
- puts service to members first
- operates according to democratic principles



Previous page and at right: First Calgary Financial employees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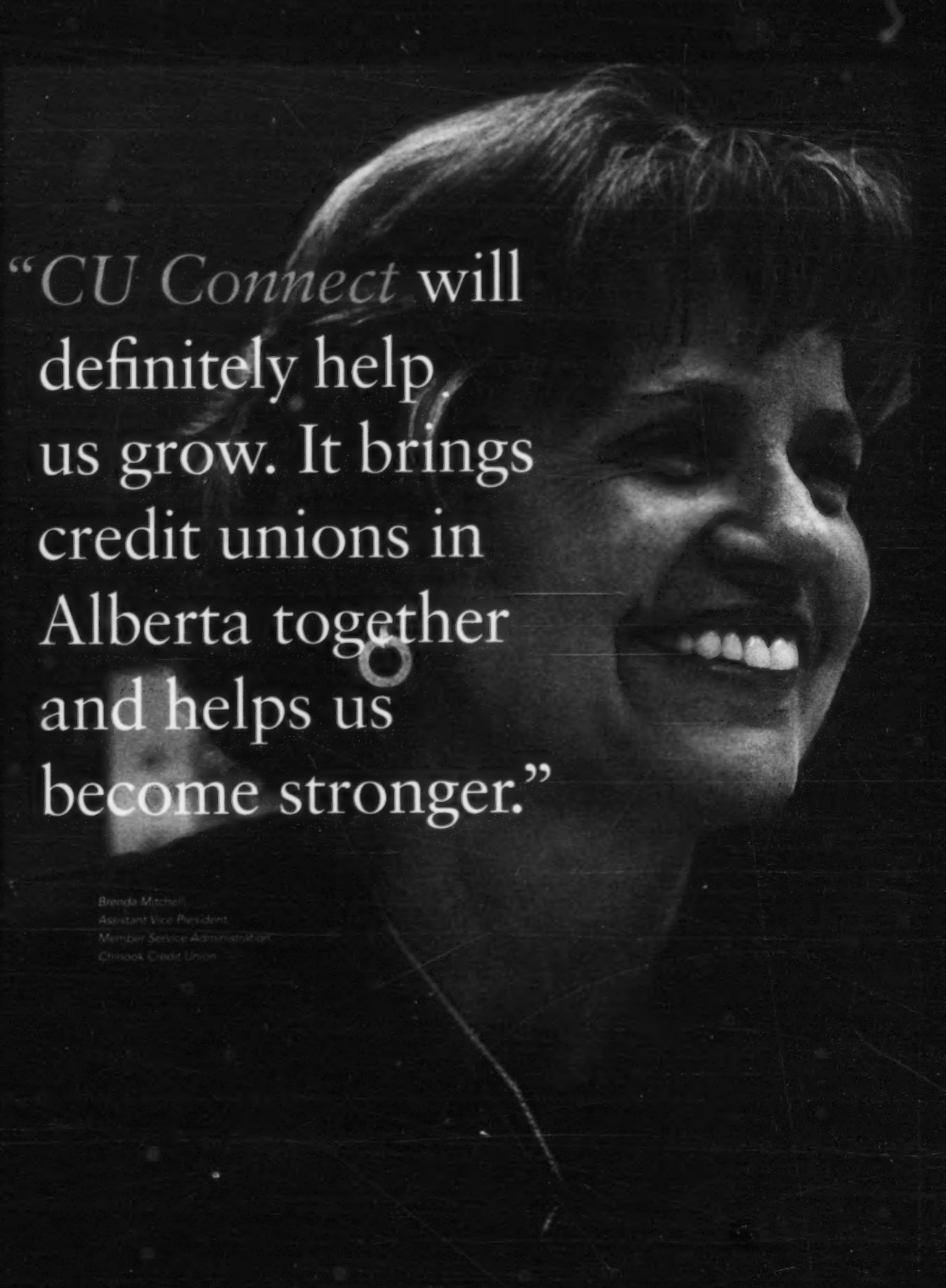

"*CU Connect* will definitely help us grow. It brings credit unions in Alberta together and helps us become stronger."
Brenda Mitchell
Assistant Vice President
Member Service Administration
Chinook Credit Union

More than 20 credit unions across Alberta – with nearly 200 branches and over 260 ATMs – are taking part in *Credit Unions Connect (CU Connect)*, an inter-credit union initiative that lets members access their accounts for no additional fee at participating credit unions, either in-branch or at an ATM.

Whether it's depositing, withdrawing or transferring funds, inquiring about their account, paying a bill or changing a PIN, credit union members want the flexibility of being able to do their banking wherever they happen to be across the province. *CU Connect* delivers that flexibility.

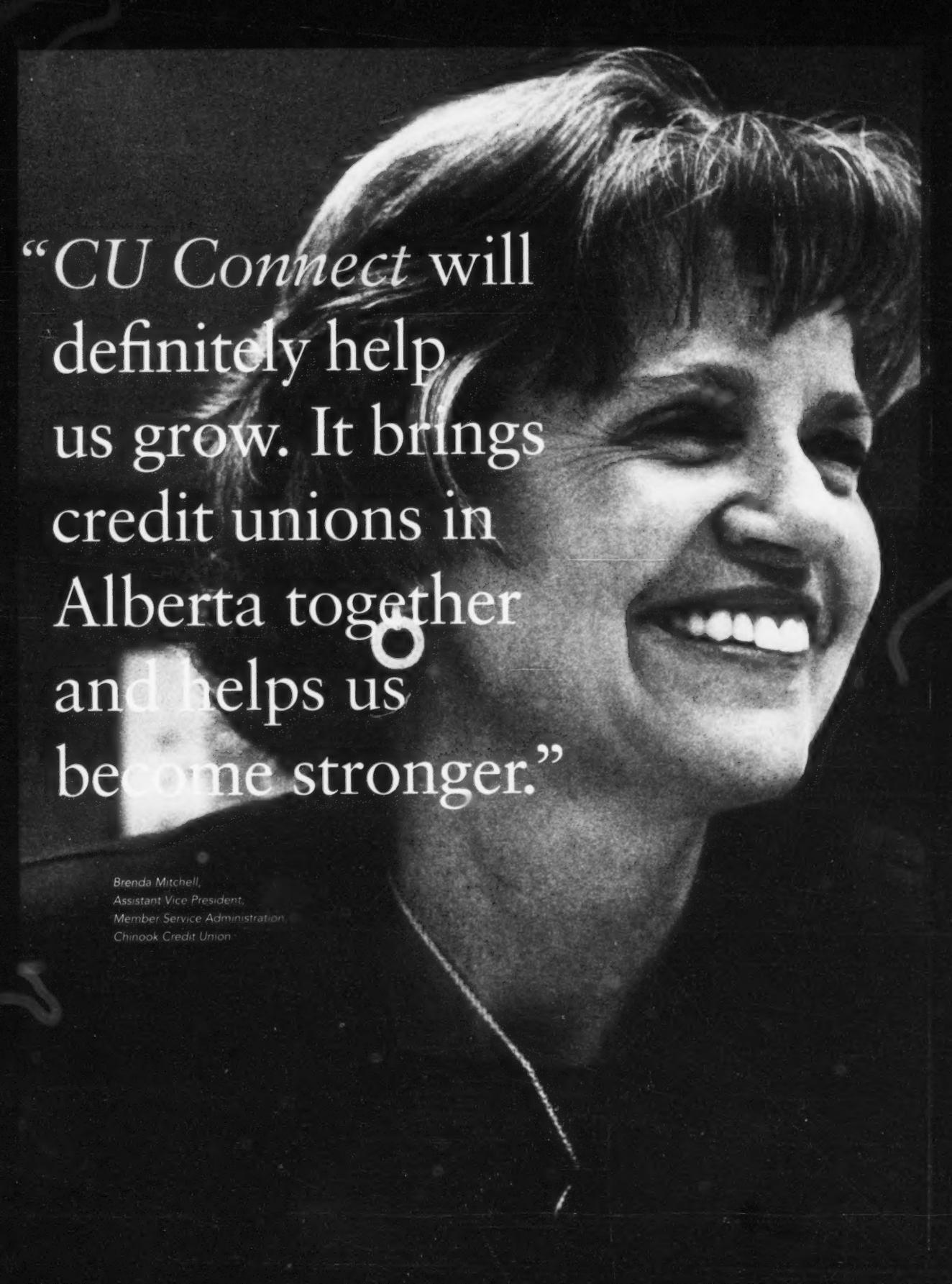
In 2011, after a pilot that lasted approximately one year and included eight credit unions in southern Alberta, the program was rolled out. And because it uses technology that already exists within the branches – the ACCULINK network and CUETS Enhanced Branch Services terminals – implementing the program was cost effective for each credit union.

With *CU Connect*, a core selection of basic transaction types are covered, which along with those mentioned above, include making loan payments, cashing cheques and other negotiable instruments and purchasing money orders and drafts.

"The inter-credit union banking program gives us the opportunity to help people from other towns and other cities. In the long-term, it also has the potential to increase our membership because people do tend to move," says Brenda Mitchell, assistant vice president of Member Service Administration, Chinook Credit Union.

Chinook Credit Union and the other participating credit unions entered a formal agreement that outlines a well-structured program to deliver services seamlessly across Alberta.

"We want to keep our members happy, so that they stay in the credit union system," she says. "I think that's the general consensus of credit unions across the board."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BENEFITS FOR CREDIT UNION MEMBERS

- increases convenience and service offering
- increases access to core selection of common transactions
- available in 100 communities through a network of 21 credit unions with 188 branches and approximately 267 ATMs

BENEFITS FOR CREDIT UNIONS

- cost effective due to use of existing technology
- increases service offering and convenience for members
- addresses perception of lower accessibility
- includes a formal agreement to deliver services in a consistent manner

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"Wainwright Credit Union was instrumental in successfully implementing the eroWORKS DNA upgrade for credit unions across Alberta thanks to their dedication and commitment to helping pilot the program."

Celero Client Care

Unity
Kerrobert
Dodsland
Earl Grey.
Edam
Community
Crocus
Oak Bank

Wainwright Credit Union was happy to pilot an upgrade to the eroWORKS banking system. The upgrade, called DNA, has been implemented at approximately 100 credit unions across the prairies, giving each credit union an improved integrated banking system.

For credit unions, good customer service is efficient customer service. In 2008, Wainwright Credit Union moved from the legacy Finesse banking system, which had reached its life-end, to the eroWORKS retail banking system, developed by Open Solutions and modified for the Canadian banking industry by Celero. Eager to discover all the functionality the system had to offer, Wainwright Credit Union volunteered in 2011, on behalf of Alberta credit unions, to pilot the transition to eroWORKS DNA. This latest version of the system offered several improvements to further enhance the eroWORKS experience. Over the course of the year, Celero, which led the implementation of eroWORKS and DNA at credit unions across the prairies, worked collaboratively with Wainwright Credit Union to complete the pilot and refine the repeatable process for rolling out DNA.

"After the upgrade we actually counted the number of screens required to accomplish a certain function. In some places, where it would have taken five different screens, we accomplished the same function – for example, putting a loan on the system – in only one or two screens," says Amy Gertsma, manager of Support Services, Wainwright Credit Union. "We really feel that we went from a basic model to one that is fully-loaded. With eroWORKS DNA, there is far improved functionality in terms of actual hands-on use."

Not only is the process smoother, it lets credit union employees do more than one thing at once. "One of the best features our frontline staff appreciates is the flexibility of the system. With DNA, it's possible to have multiple tasks open, streamlining the process and creating much appreciated efficiency in customer service," says Amy.

Celero says Wainwright Credit Union was instrumental in successfully implementing the upgrade for credit unions across Alberta thanks to their dedication and commitment to helping pilot the program. Through the credit union's demonstration of the cooperative spirit, all credit unions running DNA are poised to take advantage of all the rich and robust functionality the banking system has to offer.

"With eroWORKS DNA, there is far improved functionality in terms of actual hands-on use."

Amy Gertsma,
Manager, Support Services,
Wainwright Credit Union

BENEFITS FOR CREDIT UNION MEMBERS

—

- faster, more efficient service

BENEFITS FOR CREDIT UNIONS

—

- improved functionality saves hours of work
- uses one or two screens to perform a task instead of five or six
- user-friendly system
- system customizable to suit individual users

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Celero employees

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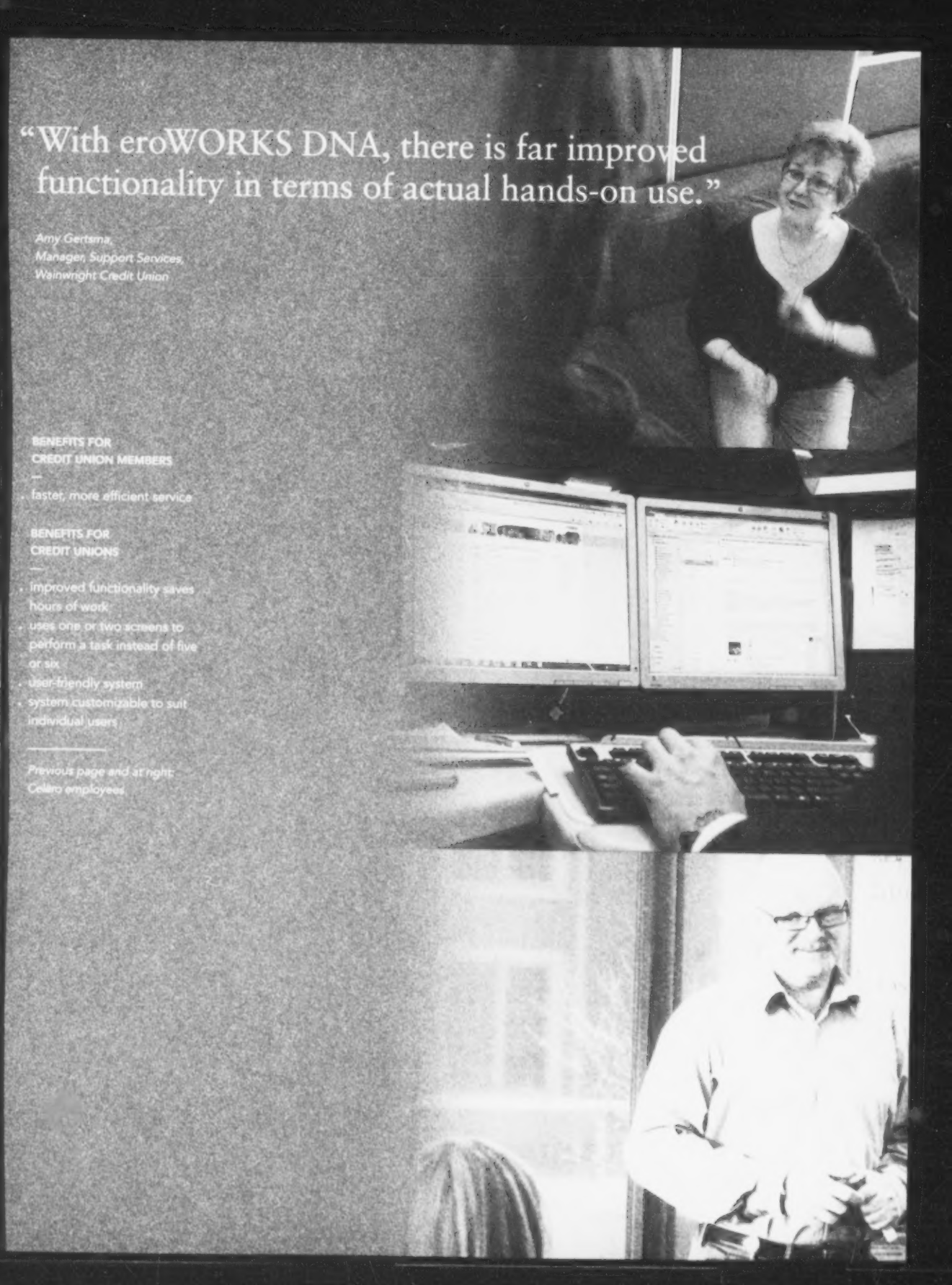
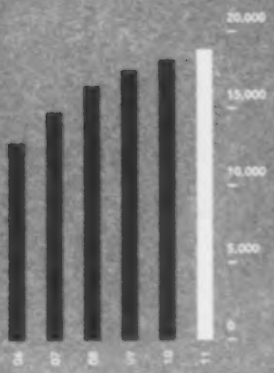
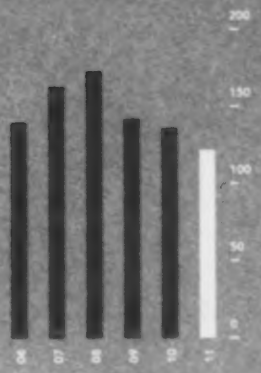


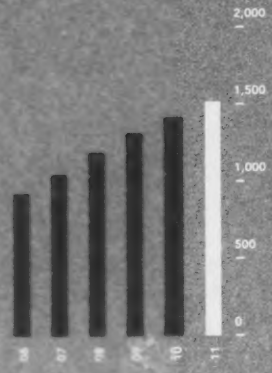
ALBERTA CREDIT UNION SYSTEM HIGHLIGHTS



Assets

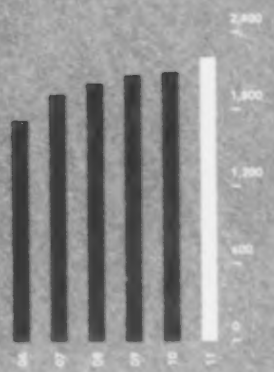


Earnings



Equity

ALBERTA CENTRAL HIGHLIGHTS



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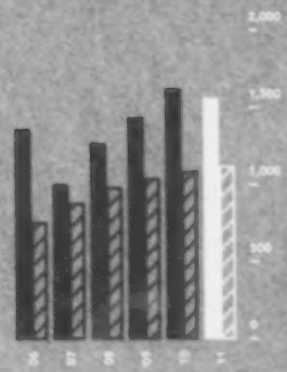
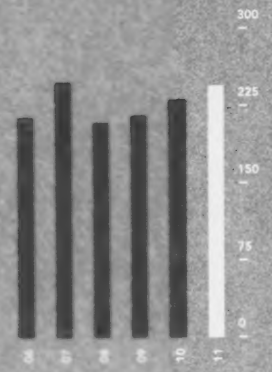


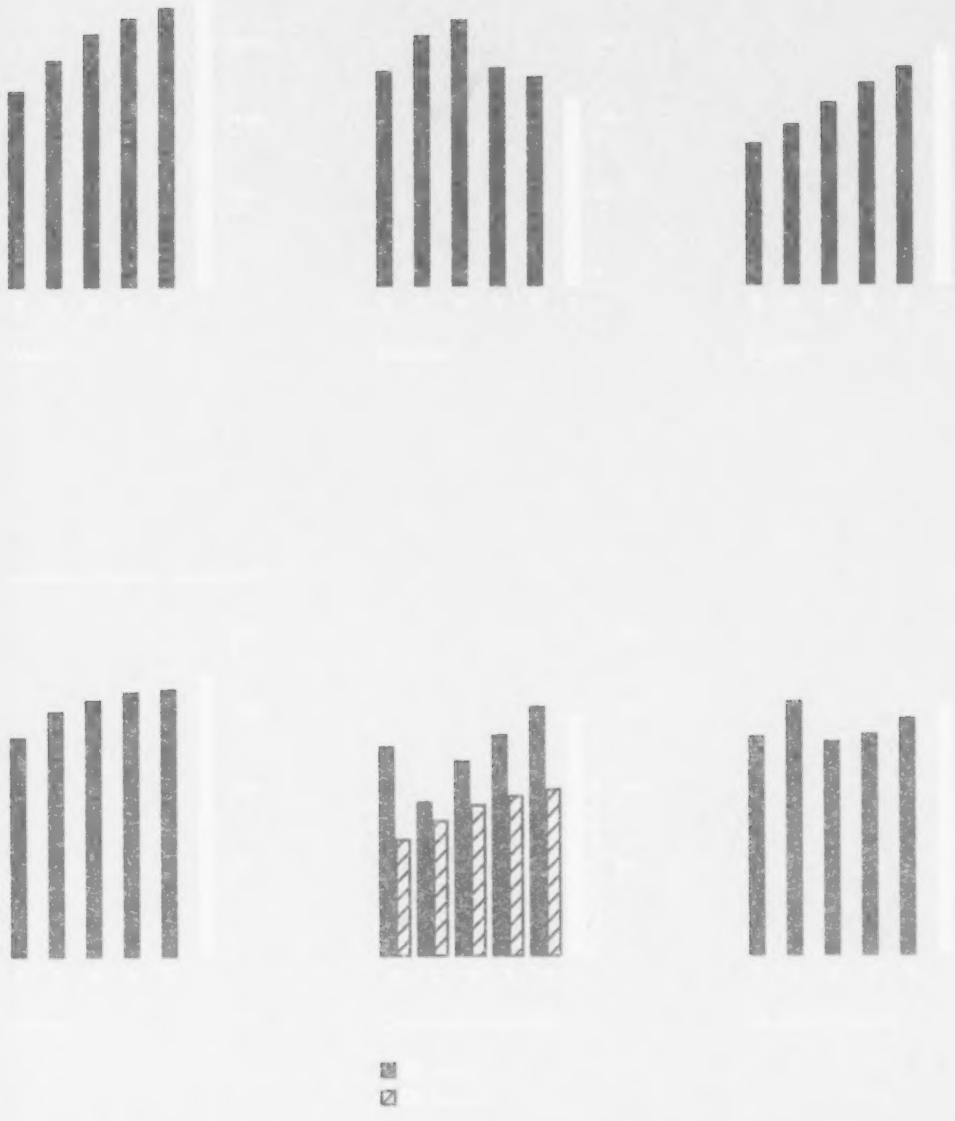
Operating Liquidity



Members' Equity

Actual
Required

In Alberta, the volatility of the global economy seemed to have little impact on the province's continued economic recovery, as most economic indicators were positive.



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OVERVIEW

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The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). These are Alberta Central's first annual consolidated financial statements prepared in accordance with IFRS. Alberta Central's December 31, 2010 financial information has been adjusted, as appropriate, to reflect the transition to IFRS. Information on the impact of the adoption of IFRS on Alberta Central's previously reported financial position and its results of operations can be found in the *Current Year Changes in Accounting Policies* section below with further details provided in Note 4 of Alberta Central's consolidated financial statements. This MD&A is dated March 8, 2012 and provides comments regarding Alberta Central's core businesses, financial and operating results, risk management and economic outlook.

Caution Regarding Forward-Looking Statements

This annual report includes forward-looking statements. By their very nature, such forward-looking statements require management to make assumptions and involve inherent risks and uncertainties. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate", "may increase", "may impact", and other similar expressions, or future or conditional verbs such as "will", "should", "would" and "could". A number of important factors, many of which are beyond management's control, could cause actual future results, conditions, actions or events to differ materially from the targets, projections, expectations, estimates or intentions expressed in forward-looking statements. These factors include, but are not limited to, changes in general economic conditions in Canada, particularly those in Alberta, including: interest rates; currency values; liquidity conditions and delinquency rates in the Alberta credit union system; the effects of conditions in the credit union system which Alberta Central serves; legislative or regulatory developments; changes in accounting standards or policies; and Alberta Central's success in anticipating and managing the risks inherent in these factors. We caution readers that the foregoing list is not exhaustive. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations. Alberta Central does not undertake to update any forward-looking statements contained in this annual report.

Core Businesses

During 2011 Alberta Central undertook the development of a business strategy within the context of the changing credit union environment. In so doing, the role of Alberta Central was defined as the provision of core services including liquidity, payments and trade, as well as other essential and ancillary services to Alberta credit unions. Alberta Central's three-year strategic objectives have been aligned with this role and can be stated as optimizing core services and ensuring credit unions have access to essential and ancillary services on a self-sufficient basis.

Core services are those used by or for the benefit of all credit unions. They include services that fall under Alberta Central's legislated mandate of liquidity management, as well as payment services and trade services. There is unanimous agreement amongst Alberta credit unions that Alberta Central should provide these services to the system.

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Alberta Central's primary responsibility is to manage the provincial liquidity pool for credit unions in the province. Liquidity has garnered increasing attention from regulators in recent years as a result of the international liquidity crisis. This resulted in liquidity-focused Office of the Superintendent of Financial Institutions Canada (OSFI) reviews, emerging international regulatory guidelines under Basel III, and replacement of the *National Liquidity Agreement* with an *Inter-Central Liquidity Agreement* between the provincial centrals.

As the primary liquidity provider and trade association for the system, Alberta Central and its joint ventures provide leadership and support to credit unions through a variety of products and services. Alberta Central's treasury and lending departments work closely together to manage the statutory and excess liquidity deposits and demand and term funding requirements for Alberta credit unions. They are responsible for maintaining a stable earning asset base while providing for the borrowing needs of Alberta credit unions and their members. Alberta Central's commercial paper program which relies on an R-1 (low) credit rating by DBRS[1] provides access to capital markets. While its core treasury and lending services are designed to meet the financing, liquidity and growth needs of the system, Alberta Central also provides foreign exchange, derivative and syndicated loan program services to Alberta credit unions.

With a 50 percent ownership interest in the CUPS joint venture, Alberta Central supports the payment and settlement operations for the system. Operations include processing of paper-based deposits and clearings, cheque and document imaging, and electronic services such as automated funds transfers and wire transfers. Alberta Central's participation in the earnings from this venture is based on the volume of Alberta credit union payment processing activity.

Through its 31.4 percent interest in Celero and Celero's 49 percent interest in Everlink Payment Services Inc. (Everlink), Alberta Central supports information technology solutions and systems for credit unions and other financial institutions, including information technology planning, systems integration, switching services, hosting, support and maintenance across a comprehensive offering of financial technology products and services.

The group clearing role for Canadian credit unions transitioned from CUCC in 2011 to a joint venture between Alberta Central, Central 1, SaskCentral and Credit Union Central of Manitoba. Alberta Central's 16.7 percent interest in the clearing joint venture serves to represent the interests of Alberta credit unions in group clearing activities and to the Canadian Payments Association.

Alberta Central is governed under the *Cooperative Credit Associations Act of Canada* and the *Credit Union Act of Alberta*, and is regulated federally by OSFI and provincially by Alberta Finance.

Economic Environment[2]

The global economic recovery slowed in 2011 due to ongoing deleveraging by banks and households, increased fiscal austerity and declining business and consumer confidence. Recent uncertainty over the ability of some countries in Europe to implement fiscal sustainability programs negatively impacted financial markets. This unfavourable external environment resulted in Canadian economic performance that was weaker than expected, although better than most countries due to domestic demand for goods and services. In Alberta, the volatility of the global economy seemed to have little impact on the province's continued economic recovery as most economic indicators were positive. Nonetheless, the province's economic performance can only be considered moderate compared to pre-recession years.

Growth

The Alberta economy is estimated to have expanded by 3.6 percent in 2011. Growth in real Gross Domestic Product (GDP) was realized across all major goods and services industries. Preliminary indications show that the fastest growing industries were mining, construction, manufacturing, and wholesale and retail trade. The finance, insurance and real estate industries are estimated to have grown modestly.

Mining/Oil and Gas

Rising demand for energy in emerging markets contributed to higher oil prices in 2011, with prices averaging US$95 per barrel. The strength of oil prices, along with low interest rates, supported investments in the conventional and

[1] *May 26, 2011 Rating Report*

[2] *Economic information was derived from the following sources: Statistics Canada, Conference Board of Canada, Bank of Canada, Canada Mortgage and Housing Corporation, CBRE Canada, Calgary Chamber of Commerce, the Government of Alberta and the Government of Canada. Alberta Central has not verified the accuracy or completeness of this information.*

non-conventional oil sectors. Production of crude oil and equivalents expanded along with a significant increase in the number of drilling rigs and marginal growth in the number of available rigs. Natural gas activity was a much different story. United States shale gas supplies continued to flood the North American market resulting in gas prices remaining deflated. Alberta's natural gas production consequently declined in 2011.

Although many areas in Alberta started 2011 with excess moisture, a good growing season, followed by a longer and warmer harvest season, and strong product prices, propelled farm cash receipts. Following two annual declines, Alberta's farm cash receipts grew to over $10 billion in 2011, up 16.2 percent from 2010. High grain and oilseed prices resulting from tight global supply helped drive crop receipts to record levels. Livestock receipts also rose despite the strong Canadian dollar.

Alberta's housing starts declined in 2011 reflecting lower single detached home construction. This is attributed to a build-up of inventory which slowed new construction. On the other hand, multi-family housing starts rose in 2011 but the increase was not sufficient to offset the reduction in single detached homes. In 2010, there was a significant reduction in the inventory of apartment buildings, thus setting the stage for the growth in multi-family housing starts recorded in 2011. The sale of existing homes increased following a decline the previous year. Low mortgage rates coupled with significant migration to Alberta supported the demand for housing. Growth in the average price of homes in Alberta was somewhat subdued as market conditions favoured buyers.

Residential vacancy rates in Alberta's urban centres declined largely on account of improvements in the labour market and gains in net interprovincial migration. Commercial office vacancy rates for Alberta's two major urban centres moved in opposite directions. Calgary's vacancy rate declined for both downtown and suburban offices. In downtown Calgary, large companies continue to absorb space, influenced by optimism in the oil and gas industry. On the other hand, the overall commercial office vacancy rate in Edmonton grew, reflecting an increase in downtown vacancies, as the supply of new office space was not fully absorbed.

The total value of building permits issued in Alberta increased in 2011 providing a good indicator of future construction activity. The value of residential building permits grew by 6.3 percent while the value of industrial and commercial building permits increased 23.6 percent and 20.1 percent respectively. The value of institutional/ government building permits fell.

The average number of persons employed in Alberta grew by 3.8 percent on a year-over-year basis in 2011. The industries with the largest average employment gains were wholesale trade, manufacturing, mining and oil and gas extraction, and professional and technical services. Declines were registered in finance, insurance, real estate, leasing and public administration. The expansion in employment outpaced growth in the labour force, thus contributing to a decrease in the average unemployment rate to 5.5 percent in 2011. Growth in average weekly earnings remained strong, increasing at a seasonally adjusted average rate of 4.7 percent.

2011 was a record year for retail trade, with sales climbing 7.0 percent above the value recorded in the previous year. Cars, electronics and appliances were among the growth leaders in retail sales. Sales of these big ticket items point to increased consumer confidence in Alberta. Sales also rose significantly at gasoline service stations, mainly as a result of higher gasoline prices. Higher incomes supported the growth in consumer spending, in addition to influencing the continued decline in consumer bankruptcies. The increase in spending limited growth in savings by Albertans.

The Bank of Canada has maintained its target for the overnight rate at 1.00 percent since September 2010. Correspondingly, the bank rate and prime rate stood at 1.25 percent and 3.00 percent respectively. It was expected that the Bank of Canada might increase rates during the

second half of 2011, however a slowdown in the global economy coupled with uncertainty and volatility in the financial markets weakened the Bank of Canada's outlook for Canada. Inflationary pressures remained subdued in 2011 adding little incentive for the Bank of Canada to increase rates.

Foreign Exchange Rates

The Canadian dollar remained strong throughout 2011 averaging slightly above parity with the U.S. dollar at US$1.01. The Canadian dollar appreciated during the first half of 2011 before gradually depreciating in the second half of the year as uncertainty about the global economic recovery and the European debt crisis caused investors to cling to the safety of the U.S. dollar.

2011 Financial Performance of the Alberta Credit Union System[1]

Alberta credit unions continued to experience slow asset growth in 2011 relative to their 20-year average annual asset growth rate of 9.0 percent and compared to the asset growth of other major financial institutions in the province. Overall, credit unions' assets grew by 3.8 percent to $18.9 billion, down slightly from the growth rate realized in the previous year. See charts *Alberta Credit Union System – Growth* and *Alberta Credit Union System – Loans* below.

Credit unions' deposit growth was lower than that of the previous year at 3.5 percent. Demand deposits and registered plans increased while term deposits and participatory savings declined.

Total loans outstanding to members were $16.1 billion, an increase of 5.1 percent. Residential and commercial loans showed the strongest growth and accounted for the majority of loan growth in terms of dollar value (61 percent and 33 percent respectively). Consumer loans grew at a slower rate as members had access to more disposable income to fund spending due to improvements in the labour market. Agricultural lending declined, likely reflecting the increased income of farmers.

Credit unions' loan delinquency levels (60 days and over) continued to fluctuate and increased from 1.29 percent in 2010 to 1.63 percent in the summer of 2011 before improving to 1.44 percent as at October 31, 2011. Consequently, credit unions increased their allowance for loan impairment by 8 basis points ($15 million) to 0.39 percent of total loans, which remains below that of major chartered banks and other financial institutions. The increase consists of additional specific allowances of $17 million offset by a decrease in general allowances of $2 million. Despite the higher rate of loan delinquency in 2011, credit unions' loan write-offs fell by 22.0 percent.

ALBERTA CREDIT UNION SYSTEM – GROWTH

Year ended October 31	2011	2010
Total assets ($000's)	18,859,631	18,171,479
Asset growth	3.8%	3.9%
Deposit growth (principal)	3.5%	4.0%
Loan growth (principal net of allowances)	5.1%	4.1%

ALBERTA CREDIT UNION SYSTEM – LOANS

Year ended October 31 (000's)	2011 $	2011 % Growth	2010 $	2010 % Growth
Residential mortgages	$8,895,587	5.7%	$8,418,675	4.8%
Commercial loans	4,715,835	5.8%	4,459,178	2.9%
Consumer loans	1,824,379	2.9%	1,773,713	3.3%
Agricultural and other loans	707,890	(0.5%)	711,177	5.0%
Total loans	**$16,143,691**	**5.1%**	**$15,362,743**	**4.1%**

[1] *Alberta credit union system financial information has been provided by the Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of the provincial credit union system. Alberta Central has not verified the accuracy or completeness of this information. All financial information is based on a fiscal October 31 year end.*

Of total delinquent loans, commercial loans and residential mortgages accounted for 62 percent and 28 percent respectively, followed by consumer and agricultural loans. Delinquency in the commercial loan and residential mortgage portfolios tends to have a significant impact on delinquency ratios due to the large dollar value associated with these loans. The impact these loan delinquencies have on loan loss allowances however, is typically offset by stronger security margins than normally found in other loan categories.

Throughout 2011, the prime rate remained low and stable, nonetheless, margins improved. Loan and investment yield increased by 8 basis points while deposit and borrowing costs rose by 1 point[1]. This resulted in financial margin before patronage increasing from 2.68 percent in 2010 to 2.74 percent in 2011. See chart *Alberta Credit Union System – Results of Operations* below.

Net income before taxes and patronage dividends totaled $122.1 million or 66 basis points of average assets, down from 76 basis points in 2010. An increase in net impairment charges for impaired loans from 0.09 percent to 0.14 percent of average assets contributed to the lower profitability. Operating expenses rose marginally to 2.54 percent from 2.47 percent of average assets, as a result of higher personnel and technology costs.

Overall, Alberta credit unions have demonstrated their sustainability and remained financially sound through a difficult economic cycle. They have stood by their members, rewarding them for their loyalty with patronage and share dividends of over $67 million.

2011 Financial Performance of Alberta Central

Results of Operations

This section provides management's commentary on the consolidated results of operations and financial condition of Alberta Central based on the audited consolidated financial statements for the year ended December 31, 2011.

Alberta Central achieved net income of $9.8 million in 2011 which compared favourably to net income of $9.1 million in 2010. See chart *Alberta Central – Results of Operations* below.

Net Interest Income

The management of the provincial liquidity pool for Alberta credit unions provides a pool of interest bearing assets on Alberta Central's consolidated statement of financial position. Fiscal 2011 proved to be a year of continued slower growth in the Alberta economy. Alberta Central's assets continued to grow, albeit slowly, in 2011, reflective of the slower growth in the underlying Alberta credit union system. In light of world-wide liquidity shortages in recent years, Alberta Central's role as liquidity provider to the Alberta credit union system continues to be critical and Alberta Central's management maintained a focus on managing liquidity risk. However, Alberta Central's holdings of short-term liquid securities are lower yielding assets, and like its member credit unions, Alberta Central also continued to experience financial margin compression throughout 2011 due to the flat yield curve and low interest rate environment.

ALBERTA CREDIT UNION SYSTEM – RESULTS OF OPERATIONS

Year ended October 31	2011	2010
Financial margin before patronage as a % of average assets	2.74%	2.68%
Net income before taxes and patronage ($000's)	122,117	135,748
Net income before taxes and patronage as a % of average assets	0.66%	0.76%

ALBERTA CENTRAL – RESULTS OF OPERATIONS

Year ended December 31 ($000's)	2011	2010
Total assets	2,206,941	2,088,267
Net interest income	14,318	13,642
Net income	9,781	9,141

[1] *Yields and cost are calculated based on the respective average balances of loans, investments, deposits and borrowings whereas financial margin is expressed as a percentage of average assets.*

Strong levels of system liquidity resulted in historically low levels of credit union borrowings from Alberta Central until the end of the fourth quarter, while Alberta Central's securities portfolio grew, as members deposited excess liquidity at Alberta Central.

Despite the low interest rate environment, net interest income grew from $13.6 million in the prior year to $14.3 million as non-prime interest rates rose throughout the year reducing the impact of rate compression. This represented a 0.63 percent return on average assets before share dividends compared to 0.61 percent in 2010. See chart *Alberta Central – Net Interest Income* below.

2012 strategic initiatives include several which seek to optimize Alberta Central's liquidity program through:

- development of principles for a protocol with the provincial government for accessing the statutory liquidity pool during an emergency liquidity event
- exploring potential alternate sources of emergency liquidity
- enhancing yields for credit unions through more flexible investment powers
- more effective use of Alberta Central's central capital through amendments to regulatory leverage limits

ALBERTA CENTRAL – NET INTEREST INCOME

	2011			2010		
($000's)	$ Average Balances	$ Income/ (Expense)	Yield	$ Average Balances	$ Income/ (Expense)	Yield
Cash and securities	2,055,848	22,958	1.12%	1,894,346	13,852	0.73%
Credit union loans	14,864	394	2.65%	131,267	2,117	1.61%
Commercial and other loans	179,642	9,352	5.21%	168,838	8,563	5.07%
Other assets	24,673	–	0.00%	27,812	–	0.00%
	2,275,023	32,704	1.44%	2,222,263	24,532	1.10%
Members' deposits	1,981,900	(18,118)	(0.91%)	1,948,397	(10,741)	(0.55%)
Borrowings	30,790	(268)	(0.87%)	26,711	(149)	(0.56%)
Other liabilities	27,775	–	0.00%	37,239	–	0.00%
	2,040,465	(18,386)	(0.90%)	2,012,347	(10,890)	(0.54%)
Common share capital	191,662	(1,912)	(1.00%)	174,596	(2,944)	(1.69%)
Retained earnings and accumulated other comprehensive income	42,896	–	0.00%	35,320	–	0.00%
	234,558	(1,912)	(0.82%)	209,916	(2,944)	(1.40%)
	2,275,023	(20,298)	(0.89%)	2,222,263	(13,834)	(0.62%)
Return on assets						
Net interest income*		14,318	0.63%		13,642	0.61%
Net interest income after dividends		12,406	0.55%		10,698	0.48%

* Net interest income excluding loan provisions and ABCP fair value adjustments

Net interest income discussed on page 39 is before provisions for credit losses.

Alberta Central's loan portfolio is concentrated in Alberta. Its credit risk exposure across industry sectors, excluding loans to credit unions is outlined in the chart *Alberta Central – Non-Credit Union Lending* below.

Alberta Central's non-credit union lending portfolio balance has grown 6.3 percent from 2010. The real estate and health care sectors achieved growth in both dollar and percentage terms, which was partially offset by reduced lending in hospitality, technology, finance and insurance, and retail.

Alberta Central management regularly reviews its portfolio to identify indications of any impairment. Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan, and loan portfolio, level.

Alberta Central's commercial loan and mortgage portfolio has remained relatively resilient through this period of economic stress. However, the challenging economic conditions of the past few years have manifested in one loan of $15.3 million in Alberta Central's portfolio which was designated as impaired in 2010 with a corresponding provision of $0.5 million. At December 31, 2011, Alberta Central continued to designate this commercial loan, syndicated with a member credit union, as impaired. Conditions relating to the loan further deteriorated in 2011 and additional provisions of $9.9 million were provided against the principal of this loan during the year.

A significant amount of uncertainty remains regarding the fair value of this loan and the range of reasonable provisions for impairment could be considered to be fairly broad. Management has completed a best estimate of an appropriate provision based on information currently available. Actual realization on the remaining $4.9 million carrying value of the loan could vary significantly, either positively or negatively, from these estimates. No other loans are considered to be impaired at December 31, 2011. Recoveries of $0.4 million were recorded in 2011 relating to prior year provisions on a loan to a cooperative organization which was paid in full during the year.

A non-specific provision is established based on Alberta Central management's overall evaluation of risk in the commercial loan and mortgage portfolio in recognition of potential losses not specifically identified on an item-by-item basis. During 2010, Alberta Central developed a quantitative model to determine an appropriate range for the non-specific loan provision. The resiliency of the model was tested by statistically reviewing the impact of macro-economic data such as vacancy rates, retail sales, building permits and

ALBERTA CENTRAL – NON-CREDIT UNION LENDING

Year ended December 31 ($000's)	2011 $	2011 %	2010 $	2010 %
Real estate	119,780	62.0%	98,373	54.1%
Hospitality	38,054	19.7%	42,912	23.6%
Health care	23,667	12.1%	13,083	7.2%
Technology	6,044	3.1%	10,377	5.7%
Finance and insurance	3,608	1.9%	4,552	2.4%
Retail	2,209	1.2%	12,688	7.0%
	193,362	100.0%	181,985	100.0%
Specific allowance	(12,167)		(1,784)	
Non specific allowance	(1,600)		(1,200)	
Total non-credit union lending, net	179,595		179,001	

employment for the past 10 years on the credit risk inherent in Alberta Central's commercial loan portfolio. Alberta Central concluded that the credit risk of its commercial loan portfolio is primarily correlated to delinquency rates within the Alberta credit union system. In 2011, Alberta Central management introduced a new qualitative indicator into the non-specific provision analysis related to the dollar value change in the Alberta credit union system's loan loss provisioning. Based on the delinquency rates, with a factored time lag for changes in economic indicators to trigger a change in delinquency rates, and Alberta credit union system loan provisioning balances, Alberta Central's non-specific provision was increased to $1.6 million at December 31, 2011 from $1.2 million in the prior year. Higher delinquency rates, as well as challenges in the real estate sector, have driven the increase.

Notes 2d, 3b and 11 to the consolidated financial statements provide further details regarding specific and non-specific loan provisions.

Gain on Sale of Securities

In March 2011, Alberta Central sold holdings of MAV 2 Class C ABCP for proceeds of $1.3 million and a gain of $1.1 million. Information on ABCP can be found in the *Increase in Estimated Fair Value of ABCP* section on page 42 with further details provided in Note 8 of Alberta Central's consolidated financial statements.

Operating Income

In addition to its net interest income, Alberta Central earns operating income from its interest in the CUPS joint venture, complementary financial services, credit union member dues, ancillary services and various facilities, human resources and accounting services provided to its joint ventures. Operating income decreased from $23.6 million in 2010 to $22.9 million in 2011.

Dues to member credit unions were the primary source of the decrease in Alberta Central's operating income. Unspent 2011 dues are to be rebated to credit unions and consequently a dues rebate of $1.0 million will be paid to credit unions in 2012. After considering the rebate, actual dues decreased to $5.0 million in 2011 from $5.9 million in 2010.

Because Alberta Central has joint control of CUPS, the proportionate consolidation method is used to record Alberta Central's share of CUPS' operating results. Alberta Central's share of both CUPS' total income and total expenses are recorded through Alberta Central's operating income and operating expenses. For CUPS, 2011 marked the achievement of the joint venture's highest level of earnings since the inception of the joint venture. Alberta Central's share of CUPS revenue grew to $9.7 million. CUPS continues to experience a change in its volume mix with growth in electronic bill payments and automated and electronic fund transfers offsetting declines in paper based deposits and clearings. CUPS remains committed to providing market-competitive payment processing solutions to credit unions as its key clients. As part of its 2012 initiatives, CUPS will direct research and development towards value-added services that enhance member experience. Outcomes of the prairie card strategy initiative may also impact initiatives undertaken and CUPS will work closely with Alberta Central to align with the direction established for Alberta credit unions in relation to the prairie credit unions' payment card strategy.

Financial services operating income is earned from complementary activities in the treasury and lending areas, such as foreign exchange, asset/liability management and commercial loan application fees. Foreign exchange and derivative revenue grew to $0.8 million due to higher volumes of foreign exchange transactions and a higher level of derivative activity by credit unions.

Alberta Central's ancillary services consist of manuals, credit union audit services and centralized purchasing services. Revenue earned by Alberta Central's manuals, credit union audit services and purchasing departments, and from services to joint ventures, was relatively consistent with prior year results.

Given credit unions' desire for additional services, Alberta Central will continue in 2012 to evaluate services that could be offered as dues programs or additional ancillary services. A process will be established to engage credit unions in advising Alberta Central about new potential services that are important to them. Success criteria for the provision of these services will be established, along with a process for evaluating whether or not services will

be structured as trade or ancillary services or sourced from market suppliers. Regulatory compliance, information technology, human resources, and strategic planning support have been identified by credit unions as important areas of need and these will be reviewed and evaluated in 2012.

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also Alberta Central's share of operating expenses in CUPS. Operating expenses, including personnel, property and equipment, administration and organization costs, totaled $24.0 million, down $1.7 million from the prior year.

Personnel costs decreased $1.3 million from the prior year which included $1.1 million of retirement costs. Temporary vacancies and small reductions in staff complement contributed to the reductions in costs. Merit increases averaged 2.77 percent, reflective of financial services sector adjustments in 2011. Having the organizational culture and staff to achieve our mission is a core strategy in Alberta Central and Alberta Central is committed to investing in employees. This is reflected by one of the 2012 operating initiatives to continue to work towards a culture that attracts, retains and develops inspired employees.

Operating expenses in administration and other, property and equipment, and organization (third party costs for dues funded activities) decreased 0.4 percent, 0.5 percent and 11.2 percent, respectively. The decreases in operating expenses reflected the critical review of spending in light of current economic conditions and in some cases, the deferral of projects to 2012. To the extent expense savings were realized in areas supported by dues funding, the savings will be passed directly to credit unions through a $1.0 million dues rebate payable in 2012 (see *Operating Income* section above).

Equity Loss (Income)

The year 2011 was a transitional year for Celero, after completing the largest banking conversion project in Canadian cooperative history in 2010. All eroWORKS banking clients were upgraded to the DNA version of the software and Celero focused on further development of its professional services line of business.

The equity loss in Celero (and through Celero, Everlink) totaled $0.2 million in 2011, improved from a loss of $2.9 million in 2010. Alberta Central's equity accounted share of Celero's 2011 results is comprised of $0.2 million net income from Celero operations, $23 thousand net income from Everlink operations and $0.4 million loss relating to a goodwill write-down in Everlink. Everlink's significant pricing reductions on switching services to credit unions in 2009 and its loss of customer base in the British Columbia region continue to be contributing factors in the goodwill valuation and adjustment.

Financial projections for Celero show a continuation of the profitable results after 2011 through growth of Celero's professional services line of business. Celero's strategy continues to evolve with a greater focus on customer satisfaction, growth and profitability in 2012.

Increase in Estimated Fair Value of ABCP

As outlined in note 8 to the consolidated financial statements, at December 31, 2011 Alberta Central held non-bank and bank sponsored ABCP with a total face value of $204.6 million (2010 – $212.4 million). At the dates of acquisition, these short-term investments were in compliance with Alberta Central's *Investment Policy* and were rated R1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, the ABCP suffered a liquidity disruption and the notes were restructured into longer-term floating rate notes that more closely matched the maturities of the underlying assets.

During 2011, Alberta Central received principal of $2.8 million (2010 – $5.8 million) on the restructured notes, bringing Alberta Central's total principal reductions since the restructuring to $40.3 million.

The replacement notes are classified as held for trading financial assets and are carried at fair value. There have been a limited number of trades in the replacement notes but Alberta Central does not consider them to be of sufficient volume or value to constitute an active market and fair value is therefore determined using a model based on market inputs.

Improvements in market inputs in 2011 have resulted in an estimated increase in the fair value of ABCP of $9.0 million which compares favourably to the $4.0 million fair value increase recorded in 2010. Management will continue to review the valuation of the notes on a quarterly basis and record fair value adjustments as appropriate under IFRS. The estimated fair value of ABCP is subject to significant risk and uncertainty, including the amount and timing of future cash flows, market liquidity and the credit quality of the underlying assets. It is reasonably possible that changes in conditions in the near term could require a material change in the estimated fair value.

These investments have been excluded from the liquidity calculations discussed later in this report. Alberta Central has operated, and continues to operate, within its legislated liquidity requirements.

Share Capital Dividends

The payment of share capital dividends and the timing and amount of such dividends is subject to the discretion of the board of directors after consideration of Alberta Central's capital plan developed as part of its ICAAP described next. In 2011, the board of directors accepted a management recommendation to shift the timing of the declaration and payment of a share dividend from the fall to after year end when financial results are known.

Share capital dividends of $1.9 million were calculated and paid in 2011 based on members' minimum monthly common share capital account balances and the average monthly prime interest rate less two percent. On February 29, 2012, Alberta Central's board of directors declared share capital dividends of $3.8 million based on the average monthly prime interest rate less one percent, payable March 15, 2012. In 2010, share dividends were calculated based on the average monthly prime interest rate less one percent and totaled $2.9 million.

ICAAP

Increased sophistication in capital markets, and changes to regulation and accounting standards are requiring financial institutions to modify the way they manage capital. In today's regulatory and economic environment, financial institutions require a more cohesive and dynamic capital management process. Under OSFI's E19 guideline, *Internal Capital Adequacy Assessment Process (ICAAP) for Deposit-Taking Institutions*, an ICAAP is required as a sound business and financial practice for banks and trust companies. While the E19 guideline does not apply to cooperatives, Alberta Finance's regulatory framework for Alberta Central included the development of an ICAAP.

The purpose of the ICAAP is to inform the board of directors of the ongoing assessment of Alberta Central's risks, and how much capital is necessary to allocate against these risks having considered other mitigating factors. The ICAAP also explains Alberta Central's internal capital adequacy assessment and allocation process. The ICAAP assists management in developing an appropriate internal capital target, which provides direction in its capital management.

Capital over and above regulatory minimums serves as a prudent measure to accommodate system growth, buffer market volatility and unexpected events, and enable strategic initiatives. Alberta Central has undergone extensive risk assessment, ICAAP analysis, and corresponding stress testing to determine prudent internal capital targets that exceed regulatory requirements and ensure adequate capital from an operational perspective that would withstand potential pressures from an economic downturn or adverse event. Based on the ICAAP analysis, Alberta Central has established an Internal Operating Limit (IOL) of 10.5:1 and Board Policy Limit (BPL)of 12.5:1. These internal limits establish a prudent buffer below the provincial regulatory limit of 15:1 and the OSFI regulated limit of 20:1.

Sound capital assessment and planning are an integral component of an ICAAP and as such, Alberta Central's ICAAP incorporates the elements of a capital plan. Alberta Central will use the guidance in its ICAAP to manage its capital on a prospective basis.

Basel III

The Basel Committee on Banking Supervision has released global regulatory standards for liquidity and capital for financial institutions known as the Basel III framework. The Basel III capital framework sets new standards that will generally require banking institutions to maintain not only additional regulatory capital, but a higher quality of regulatory capital. The Basel III liquidity framework looks to strengthen and formalize liquidity principles by establishing

two minimum standards for adequate liquidity: the Liquidity Coverage Ratio, which measures an entity's ability to withstand a liquidity event of 30 days in duration, and the Net Stable Funding Ratio, which measures the entity's ability to withstand a liquidity stress over a one year time horizon. The extent to which these standards will be adapted and applied to provincial centrals in Canada has not yet been determined by OSFI or Alberta Finance.

Alberta Central hosted several meetings in 2011 for credit union working groups to share a high-level review of Basel III liquidity and capital standards and facilitate a discussion amongst credit unions and CUDGC on the potential impact of Basel III standards on Alberta credit unions. Servus Credit Union, First Calgary Financial, Mountain View Credit Union, Chinook Credit Union, Rocky Credit Union and Eckville Credit Union were members of these working group discussions.

Liquidity and Regulatory Capital

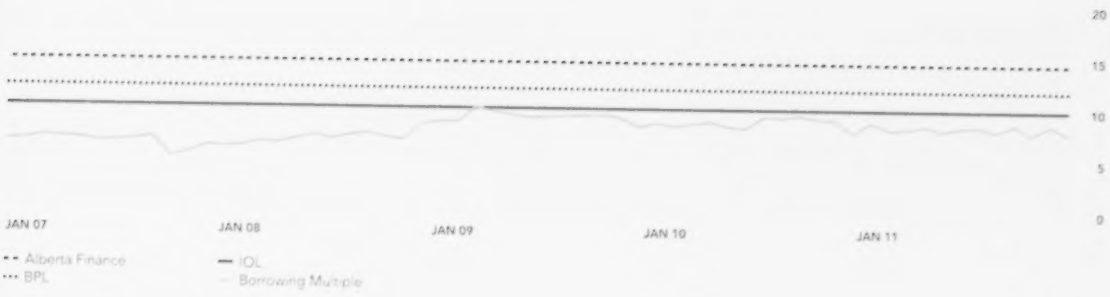
Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of 1 percent of their assets as share capital in Alberta Central. Alberta credit unions are also required to maintain liquidity deposits at Alberta Central such that their total liquidity deposits and share capital held with Alberta Central comprise no less than 9 percent of each credit union's liabilities.

Alberta Central participates with other Canadian credit union centrals in a national liquidity arrangement. Effective July 6, 2011, Alberta Central, Central 1 and the credit union centrals of Manitoba and Saskatchewan entered into a new group clearing arrangement under the terms of the *Credit Union System Group Clearing Agreement* which completed the transition of the group clearing function for credit unions from CUCC. The participating centrals also entered into the *Inter-Central Liquidity Agreement*, which replaces the former *National Liquidity Fund Agreement*. The *Inter-Central Liquidity Agreement* provides emergency liquidity to a participating central in the form of a loan through a multi-lateral credit facility, whereby Alberta Central has committed $400 million. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of 6 percent of its provincial system's assets in certain qualifying liquid assets. Under the former *National Liquidity Fund Agreement*, Alberta Central was required to keep 2 percent of its provincial system's assets in segregated accounts of liquid assets and a further 4 percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain 6 percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2011 was $1.1 billion. Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of the requirements under provincial legislation and the *Inter-Central Liquidity Agreement*. The chart below plots the relationship of Alberta Central's required and actual liquidity over the past five years.

LIQUIDITY RATIO – ACTUAL TO REQUIRED

BORROWING MULTIPLE



ALBERTA CENTRAL – BORROWING MULTIPLE

Year ended December 31 ($000's)	2011	2010[1]
Common shares and share redemption liability	$193,716	$187,392
Retained earnings	$49,719	$40,982
Less: deductions from capital	($8,004)	($6,437)
Total regulatory capital	$235,431	$221,937
Borrowing multiple	8.3	8.3
Maximum regulatory borrowing multiples:		
OSFI	20:1	20:1
Alberta Finance	15:1	15:1
Internal operating limit (IOL)	10.5:1	
Board policy limit (BPL)	12.5:1	

[1] *The regulatory capital calculation at December 31, 2010 is based on Canadian GAAP as reported to OSFI and Alberta Finance. Therefore, these balances may differ from the related IFRS balances in the consolidated financial statements.*

Alberta Central's objectives when managing capital are to:

- comply with the capital requirements set by its regulators
- maintain a strong capital base to support the credit union system through the development of Alberta Central's business
- maintain a consistently strong credit rating and investor confidence
- balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate

Alberta Central's capital levels are regulated under guidelines issued by OSFI and Alberta Finance. These regulations require Alberta Central to maintain a prescribed borrowing multiple (the ratio of debt to regulatory capital). For purposes of these calculations, borrowings are comprised of members' deposits, loans and notes payable and certain derivative financial liabilities. *Alberta Central's borrowing multiple positions are outlined above.*

In each year, Alberta Central's capital levels exceeded both its regulatory capital and internal capital requirements as presented in the chart above.

There have been no changes in Alberta Central's design of internal controls and procedures over financial reporting during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, Alberta Central's internal control over financial reporting during the period covered by this MD&A.

Critical Accounting Estimates and Assumptions

The accompanying consolidated financial statements have been prepared in compliance with IFRS. The significant accounting policies used in preparation of the audited consolidated financial statements are described in note 3. These accounting policies require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Significant areas of estimation uncertainty and critical judgments in applying accounting policies as described in note 2d include those relating to the provision for specific and non-specific credit losses, the fair value of financial instruments and the calculation of deferred income taxes.

Current Year Changes in Accounting Policies

During 2011, Alberta Central transitioned from Canadian generally accepted accounting principles (GAAP) to IFRS. Therefore, certain accounting policies were required to be changed to comply with IFRS requirements. Alberta Central has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Differences between Canadian GAAP and IFRS have been reflected as an adjustment to opening retained earnings or as an adjustment to opening accumulated other comprehensive income, as applicable. The IFRS transitional impact at January 1, 2010 was an increase of $0.9 million to retained earnings and $1.5 million to accumulated other comprehensive income. Alberta Central's net income for the year ended December 31, 2010 under IFRS was $9.1 million, which is $0.4 million lower than the amount previously reported under Canadian GAAP. The impact of the transition to IFRS on Alberta Central's reported financial position, financial performance and cash flows is detailed in note 4 of the consolidated financial statements.

Future Changes in Accounting Policies

A number of new and amended IFRS have been issued and will be applicable for Alberta Central's fiscal years after 2011. These are described in note 3n of the consolidated financial statements. Alberta Central is currently assessing the expected impact, if any, that the adoption of each of these standards will have on the consolidated financial statements.

Central 1 Merger

On October 17, 2011, Alberta Central and Central 1 announced the initiation of merger discussions with the objective of enhancing core services to more than 190 credit unions in British Columbia, Alberta and Ontario. During this process, the centrals evaluated whether an opportunity existed through consolidation, to achieve efficiencies, offer a stronger liquidity structure, greater diversification of funding sources and better capacity in the areas of finance, payments and trade services. On March 8, 2012, this project was suspended.

Economic Outlook Beyond 2011[1]

The outlook for the global economy remains uncertain as the sovereign debt crisis in Europe continues, conditions in international financial markets tighten and confidence wanes. Europe's recession is now expected to be longer than initially anticipated and European Union countries will need to undergo severe fiscal austerity, thus contributing little support to global economic growth in 2012. In the U.S., the recovery is expected to proceed at a modest pace owing to ongoing household deleveraging, fiscal consolidation and the spillovers from Europe.

Based on the outlook for the external environment, the Canadian economy is forecast to grow modestly as net exports will contribute little to growth. This is influenced by weak expectations for foreign demand and the persistent strength of the Canadian dollar. The Bank of Canada predicts total and core inflation will be moderate in 2012 and subsequently rise, reaching 2 percent by the third quarter of 2013. Little or no change is therefore anticipated in the Bank of Canada's policy rates in 2012.

The Conference Board of Canada forecasts the Alberta economy to expand by 3.3 percent in 2012. High oil prices due to geopolitical tensions are more than sufficient to justify construction of new oil sands projects. Increased investment activity already in play will lead to the mining and construction industries being the drivers of growth.

[1] *Economic information was derived from the following sources: Conference Board of Canada, Bank of Canada, Canada Mortgage and Housing Corporation, CBRE Canada, Calgary Chamber of Commerce, the Government of Alberta and the Government of Canada.*

The spinoff effect related to these investments is anticipated to be substantial in the manufacturing, transportation and warehousing, professional services, wholesale trade and business services industries.

The housing market is expected to expand in 2012, both in terms of housing starts and sales of existing homes. Demand for new single detached homes, new multi-family housing and existing homes is anticipated to grow, influenced by continued economic and demographic growth, and job creation. The average resale price of homes is forecasted to increase by 2.2 percent, indicative of the growing demand. Residential and office vacancy rates are expected to decline in Alberta's major urban centres, Calgary and Edmonton.

The 2012 forecast for Alberta's agriculture industry remains strong with projected net cash income 13 percent higher than 2011. Increased farm cash receipts are expected from crops and livestock however, government program payments are expected to decline slightly as a result of improvements in the market and the absence of special program payments, assuming no weather related disasters occur.

The positive economic outlook for Alberta is expected to drive job creation. The number of net new jobs is projected to be sufficient to continue to reduce the unemployment rate. Growth in average weekly earnings is anticipated to be slightly lower than that of 2011, thus limiting growth in consumer spending and the personal savings rate. New employment will, however, have a positive effect on total consumer spending and savings.

Risk Management

Alberta Central recognizes risk management as one of its most important responsibilities. Risk is inherent in business and when managed appropriately is a source of growth and sustainability. Alberta Central's objective is to optimize risk for the protection and creation of member value. Optimizing risk means striking a balance between risk and reward, and at the same time ensuring that Alberta Central's risk-taking is consistent with its strategic plans and risk tolerance.

In order to meet risk management objectives, risks must be identified, understood, measured, assessed and managed on an enterprise-wide basis. Alberta Central recognizes that implementing an effective enterprise risk management program is a process and an investment which entails significant time and effort to ensure that risks are recognized, governed and appropriately managed in providing for the safety, soundness and good reputation of Alberta Central as a whole.

Enterprise Risk Management (ERM) and Risk Assessment Process

ERM Principles

Alberta Central's ERM system is guided by the following twelve principles from IS31000 (Canada):

Risk management:

- creates and protects value
- is an integral part of all organizational processes
- is part of decision making
- explicitly addresses uncertainty
- is systematic, structured and timely
- is based on the best available information
- is tailored
- takes human and cultural factors into account
- is transparent and inclusive
- is dynamic, iterative and responsive to change
- facilitates continual improvement of the organization
- requires strong support from senior management

ERM Framework

The ERM framework integrates Alberta Central's risk management process into the overall strategic management and governance structure of the organization.

Key components of Alberta Central's ERM framework include:

- understanding the context including the nature and complexity of risk associated with Alberta Central's products and services
- establishing risk management policies at both the management and governance levels
- accountability for managing risk
- identifying and documenting the owner of each risk
- ensuring that adequate resources are available to manage risk
- establishing communication and reporting mechanisms
- establishing organizational risk appetite on significant risks for stakeholders

ERM Process

The ERM process is the predominant method of managing risk throughout Alberta Central. Key components of Alberta Central's risk management process include:

- communication and consultation
- risk identification
- risk analysis
- risk evaluation
- risk treatment
- monitoring and review
- recording and reporting

Alberta Central's ERM system provides the policies and structure to allow it to identify, assess, mitigate where appropriate, and accept risk in accordance with its risk appetite. This process ensures that Alberta Central is cognizant of the material risks that it faces and mitigates them as necessary until they reach an acceptable level. The amount of capital Alberta Central believes it must prudently allocate to address each material risk is assessed through this approach thereby not only safeguarding that it will meet regulatory requirements, but that it will have a capital level that is within its IOL and BPL.

Risk Assessment Process

Businesses take risks based on two factors: the probability an adverse circumstance will occur, and the cost of the adverse circumstance.

Risk Identification

Risk identification is an integral component of Alberta Central's risk management process. Each risk identified is categorized in order to facilitate measurement, monitoring and reporting. Material risks are identified through a number of processes including reviews of: all products and services, corporate business plans, strategic plans and financial reports. Additionally, Alberta Central relies on internal risk analysis, communication with each business unit, and ongoing dialogue with stakeholders and peers to identify material risks. In order to keep abreast of current events and developments, Alberta Central's management team is active in various professional associations, credit union system committees and boards of various organizations.

Risk Severity Assessment

Assessing the severity of each risk is based on management's judgment regarding the likelihood that an identified risk will materialize and the impact or consequences of an identified risk event. Each risk is measured, and where possible a quantitative measurement is used. Each risk has the potential to affect one or more of the following categories of measurement:

- financial in that it affects profit and/or capital
- reputation in that it involves image, ethics, trust, etc.
- efficiency in that it affects operational proficiency or capability
- people in that it refers to risks that affect staff, morale, retention, and/or recruiting

Once all risks have been assessed by each member of the Management Risk Committee, an average of each committee member's score for each identified risk is used to determine the severity level for each risk. The risks are then ranked from highest to lowest based on the average risk severity scores, indicating the materiality of the inherent risks. Upon determining the severity of the risk, the committee assesses the controls surrounding the risk and any mitigating procedures that would reduce the risk level if deemed appropriate in response to the assessed risk severity.

Responding to Risk

Once a risk has been assessed, Alberta Central management determines how the organization will respond to the risk. Depending on the level of risk and the tolerance for that risk, one of four responses are selected:

- accept the risk as it is without further action
- treat the risk by applying additional mitigation to bring the risk to a tolerable level
- transfer the risk by insuring or outsourcing the risk
- reject the risk and discontinue the business or service

Once the risk response is selected, it is followed by maintaining, monitoring, and updating the ERM.

Alberta Central has determined that the following risk categories are most applicable to its business operations.

Capital Adequacy Risk

Capital adequacy risk is the risk of financial loss and/or regulatory intervention due to the failure of Alberta Central to maintain the prescribed capital base to meet regulatory requirements and/or the capital base necessary to support its business plans. Alberta Central's capital management processes anticipate the capital requirements and the sources that will be drawn upon to maintain the necessary level of capital throughout the year. Management regularly monitors and reports the levels and quality of the company's capital to the Audit and Finance Committee. In 2011, Alberta Central's ICAAP, IOL and BPL were approved by the board of directors.

Liquidity Risk

Liquidity risk is the risk of being unable to meet financial commitments through regular cash flows. Inability to meet financial commitments through cash flows can lead to losses as Alberta Central could be forced to raise funds at higher costs or sell assets at reduced prices. For Alberta Central this means ensuring that managed assets must be available to meet its own needs as well as the needs of Alberta credit unions. Alberta Central has established policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a cost effective manner as they occur. These policies are annually reviewed and approved by the board of directors.

Alberta Central's liquidity management policies and procedures include:

- specific limits for types, amounts, and duration of investments
- investment dealer restrictions
- approved sources of deposit funds
- approved sources for borrowing funds
- monitoring actual cash flows on a daily basis
- forecasting future cash flow requirements
- scenario testing and contingency planning
- daily monitoring of liquidity position
- quarterly reports to Alberta Central's internal Asset Liability Committee and the board of directors

Market Risk

Market risk is comprised of interest rate risk, foreign exchange risk and other price risk, as outlined below.

Interest Rate Risk

Interest rate risk is the risk that interest rate fluctuations may erode Alberta Central's earnings or economic value. Alberta Central's consolidated statement of financial position is comprised of interest-bearing assets and liabilities with different maturity dates which expose Alberta Central to interest rate risk. Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. Alberta Central's interest rate risk policy defines specific tolerances for changes in net interest income and net economic value. Alberta Central also uses gap analysis and simulation modeling to analyze the effects of interest rate fluctuations on net interest income. This forecasting is then used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits.

Foreign Exchange Risk

Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits, and monitoring and reporting requirements. Alberta Central is authorized to hold up to US$5 million, £0.5 million and €0.5 million in excess of, or short of, its foreign currency liabilities. Alberta Central's exposure to foreign exchange fluctuations is monitored on a daily basis.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Alberta Central's portfolio consists primarily of short-term, highly liquid, high investment grade credit quality securities. Business is restricted to activities that are understood and that can be adequately priced. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk.

The board, on the recommendation of the Audit and Finance Committee, establishes written policies to ensure prudent investment standards are applied. Alberta Central's *Investment Policy* is reviewed and approved by Alberta Central's board annually. The policy is approved by Alberta Finance each year before being adopted by Alberta Central. Asset liability management is the responsibility of qualified treasury personnel with management oversight from an internal management committee, the Asset Liability Committee, which reviews market risk exposure at quarterly meetings. Alberta Central's most significant other price risk relates to its holdings of ABCP, as described in note 8 to the audited consolidated financial statements.

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Alberta Central is exposed to credit risk in its lending operations and in its investment activities.

Alberta Central's lending and investment policies addressing credit risk are reviewed and approved annually by the board of directors. Management regularly reviews credit procedures to ensure they provide relevant, appropriate guidance for the underwriting and administration of all types of loans. Alberta Central's lending activity is predominantly to serve the needs of Alberta credit unions and their members. Alberta Central's commercial lending activity is usually as a secondary syndication partner with credit unions; however, loans must meet Alberta Central's lending criteria without reliance on the due diligence process of any syndication partner.

Alberta Central employs and is committed to a number of important principles to manage credit exposures:

- a Credit Committee whose duties include approval of lending policies, establishment and delegation of loan limits and approval of larger credits
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management lending personnel prior to recommendation to the Credit Committee
- employment of personnel engaged in credit granting who are qualified and experienced in lending
- lending policies that are communicated to employees whose activities and responsibilities include credit granting and risk assessment
- annual reviews of loans
- independent reviews by internal audit, which includes reporting the results to senior management and Alberta Central's Audit and Finance Committee

Alberta Central maintains both specific and non-specific allowances for credit losses. Specific allowances are established, based on management's knowledge and review of individual loans. The non-specific or general allowance exists to provide an additional allowance against possible volatility in future cash flows as a result of unexpected loan defaults. The non-specific allowance for credit losses is used to recognize losses incurred but not specifically identified. It is estimated based on current non-delinquent credit balances, delinquency rates in the credit union system and the dollar value change in the Alberta credit union system loan loss provisioning.

Operational risk includes risk associated with conducting the several business operations of Alberta Central. It is the risk of loss arising from ineffective or failed internal processes, technology or human performance. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure. Due to the nature of operational risk, it cannot be completely eliminated. Alberta Central manages operational risk through established policies and procedures and systems of internal controls, including:

- programs aimed at attraction and retention of qualified staff
- active performance management processes
- encouraging and facilitating employee skill development
- employee code of conduct certification process
- ongoing implementation of enterprise risk management processes including development of business continuity plans

- development of effective policies and procedures
- clearly delegated authorities and limits
- ongoing program of internal audit of effectiveness of operations
- regular review of insurance coverage to ensure adequate protection against insurable losses

Strategic Risk

Strategic risk is the risk to Alberta Central's earnings or capital arising from business decisions or flawed implementation of those decisions. This risk is a function of the compatibility between the organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

Alberta Central employs a number of means in order to ensure that its strategic plans are appropriate and relevant including:

- three peer group meetings per year – a forum established by Alberta Central to gather input from credit unions regarding their needs and future direction
- participation by representatives of Alberta Central in various national system committees and professional associations to keep abreast of the current environment
- processes to gather strategic planning input from members of Alberta Central's senior management team
- joint management/board strategic planning sessions which are conducted annually
- regular discussion of strategic plans and emerging strategic issues at all board meetings
- feedback surveys conducted regularly to gather input from the board of directors, credit union clients, and Alberta Central staff and used to develop action plans as appropriate

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss due to failure to comply with legal and regulatory requirements. Alberta Central's activities are subject to reviews and periodic on-site examinations by OSFI and Alberta Finance.

Alberta Central's chief compliance officer maintains a legislative and regulatory compliance management system through which legislative and regulatory requirements are annually reviewed and reported on. The effectiveness of the controls and processes utilized by the chief compliance officer are annually reviewed and reported to the Audit and Finance Committee by internal audit. New policies and procedures are developed to address legislative and regulatory requirements as appropriate. The board of directors receives an annual compliance report in which any deficiencies and corresponding action plans are identified.

Corporate Governance Risk

Corporate governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the board of directors and senior management. Alberta Central's organizational structures, policies and controls are designed to provide effective corporate governance.

Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior management.

Alberta Central's processes and procedures include:

- director qualification and competency criteria
- a comprehensive director orientation program
- ongoing director development and training
- regular board and committee meetings
- governance committee oversight of board governance practices
- an annual strategic planning process
- an annual board evaluation process
- board evaluation of senior management
- established performance management processes
- individual performance scorecards for management
- leadership development programs for management
- succession planning process for CEO and senior management

Management's Responsibility for Financial Reporting

Management of Credit Union Central Alberta Limited (Alberta Central) is responsible for the integrity and fair presentation of the financial information contained in this annual report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where necessary, include amounts which are based on the best estimates and judgments of management. Financial information appearing throughout this annual report is consistent with the consolidated financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance of the timely production of reliable and accurate financial information, the promotion of operational efficiency, that assets are safeguarded against loss from unauthorized use or disposition and liabilities are recognized. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business conduct throughout management throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all major aspects of Alberta Central's operations. The external auditors have full access to and meet regularly with, the Audit and Finance Committee (the Committee) of the Board of Directors to review and discuss the results of their work.

Both the federal and provincial regulators of financial institutions conduct examinations and make such enquiries into the business affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The Committee, composed entirely of external directors, reviews the consolidated financial statements, including key management estimates and judgments material to the financial results, before such consolidated financial statements are approved by the board of directors and submitted to the members of Alberta Central. The Committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for improvements in internal control. The Committee is also responsible for recommending the appointment of the external auditors to the board of directors.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements of Alberta Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to the members. The auditors have full access to, and meet periodically with, the Committee both in the presence and absence of management, to discuss their audit, including any findings as to the integrity of accounting, financial reporting and related matters.

Graham Wayne
President and CEO

Anne Gillespie
Chief Financial Officer

February 29, 2012

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Graham Wetter
President and CEO

Anne Gillespie
Chief Financial Officer

February 29, 2012

To the Members of Credit Union Central Alberta Limited

We have audited the accompanying consolidated financial statements of Credit Union Central Alberta Limited and its joint venture, which comprise the consolidated balance sheet as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations, members equity and comprehensive income and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Credit Union Central Alberta Limited and its joint venture as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, AB

February 23, 2012

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(thousands of dollars)	Year ended December 31 2011	2010
Financial income		
Interest on securities	22,958	13,852
Interest on loans	9,746	10,680
	32,704	24,532
Financial expenses		
Interest on members' deposits	18,118	10,741
Interest on loans and notes	268	149
	18,386	10,890
Net interest income	14,318	13,642
Provision for credit losses on commercial loans and mortgages (Note 11)	(10,783)	(2,123)
Gain on sale of securities (Note 8)	1,130	157
	4,665	11,676
Operating income (Note 5)	22,851	23,581
Operating expenses (Note 5)	(23,985)	(25,649)
Equity loss in Celero Solutions (Note 9)	(204)	(2,880)
Income before the under noted	3,327	6,728
Increase in estimated fair value of ABCP (Note 8)	9,000	4,000
Income before income taxes	12,327	10,728
Income taxes (Note 7)		
Deferred income tax expense	2,546	1,587
Net income	9,781	9,141
Other comprehensive income		
Change in unrealized gains (losses) on available for sale securities net of income tax of $53; 2010 – $164	(225)	275
Reclassification adjustments for realized gains (losses) on available-for-sale securities net of income tax of $16; 2010 – $9	(67)	32
Comprehensive income	9,489	9,448

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Assets			
Cash and items in transit (Note 22)	67,856	65,646	51,979
Securities (Note 8)	1,868,685	1,800,156	1,727,957
Loans (Note 11)	249,492	192,967	248,221
Derivative financial assets (Note 22)	12,181	16,611	20,427
Deferred income tax asset (Note 7)	3,504	5,906	6,805
Other assets (Note 12)	5,223	6,981	14,343
	2,206,941	2,088,267	2,069,732
Liabilities			
Accounts payable and accrued liabilities (Note 14)	8,372	10,646	12,874
Members' deposits (Note 15)	1,840,096	1,810,370	1,798,503
Loans and notes payable (Note 16)	101,381	19,993	19,997
Share redemption liability (Note 17)	–	–	15,878
Derivative financial liabilities (Note 22)	12,181	16,611	20,427
	1,962,030	1,857,620	1,867,679
Members' Equity			
Common share capital (Note 17)	193,716	187,392	165,830
Retained earnings	49,719	41,487	34,762
Accumulated other comprehensive income	1,476	1,768	1,461
	244,911	230,647	202,053
	2,206,941	2,088,267	2,069,732

Commitments (Note 19)

The accompanying notes are an integral part of these consolidated financial statements.

Signed on behalf of the board

Raymond Coates
Chair, Board of Directors

Alison Starke
Chair, Audit and Finance Committee

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

(thousands of dollars)	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2010	165,830	34,762	1,461	202,053
Net income	–	9,141	–	9,141
Change in unrealized gains (losses) on available-for-sale securities (net of income tax of $(73))	–	–	307	307
Issue of share capital	5,811	–	–	5,811
Reclassification from share redemption liability	15,878	–	–	15,878
Share capital redemption	(127)	–	–	(127)
Share capital dividends (Note 18)	–	(2,944)	–	(2,944)
Recovery of income tax on share capital dividends	–	528	–	528
Balance at December 31, 2010	**187,392**	**41,487**	**1,768**	**230,647**
Net income	–	9,781	–	9,781
Change in unrealized gains (losses) on available-for-sale securities (net of income tax of $68)	–	–	(292)	(292)
Issue of share capital	6,324	–	–	6,324
Share capital dividends (Note 18)	–	(1,912)	–	(1,912)
Recovery of income tax on share capital dividends	–	363	–	363
Balance at December 31, 2011	**193,716**	**49,719**	**1,476**	**244,911**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of dollars)	Year ended December 31 2011	2010
Cash resources provided by (used in):		
Operating activities		
Net income	9,781	9,141
Adjustments for:		
Gain on sale of securities	(1,130)	(157)
Foreign exchange gains on cash resources	(788)	(165)
Depreciation and amortization	812	738
Deferred income tax expense	2,546	1,583
Adjustment to capital assets' carrying values	–	80
Increase in estimated fair value of ABCP	(9,000)	(4,000)
Accrued interest on impaired loans	(855)	(807)
Provision for credit losses on commercial loans and mortgages	10,783	2,123
Interest received on securities	(22,328)	(14,009)
Interest paid on loans and notes payable	253	149
	(9,936)	(5,325)
Changes in non-cash operating components:		
Accounts receivable and other assets	1,391	7,868
Accounts payable and accrued liabilities	(2,035)	(2,558)
Increase in members' deposits	29,726	11,867
(Increase) decrease in loans	(66,453)	53,938
Income taxes received	–	170
	(47,327)	65,960
Financing activities		
Increase (decrease) in loans and notes payable	61,388	(4)
Interest paid on loans and notes payable	(253)	(149)
Issuance of share capital, net of redemptions	6,324	5,684
Payment of share capital dividends	(1,912)	(2,944)
	65,547	2,587
Investing activities		
Increase in securities	(80,619)	(67,892)
Interest received on securities	22,328	14,009
Acquisition of capital and intangible assets	(445)	(1,324)
Proceeds from sale of securities	1,328	157
	(57,408)	(55,050)
Net effect of exchange rate changes on cash resources	788	165
Increase in cash resources	2,210	13,652
Cash and cash equivalents, beginning of year	65,646	51,994
Cash and cash equivalents, end of year	**67,856**	**65,646**
Cash and cash equivalents consist of:		
Cash	43,978	64,155
Cheques and other items in transit	23,878	1,491
	67,856	**65,646**

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

Credit Union Central Alberta Limited (operating as Alberta Central) is a limited liability company and is incorporated and domiciled in Canada. Alberta Central is governed by the *Credit Union Act of Alberta* and is also subject to the provisions of the *Cooperative Credit Associations Act of Canada*.

The address of its registered office is:
350N, 8500 Macleod Trail S.E.
Calgary, Alberta

Alberta Central is the liquidity and payments provider and trade association for credit unions in Alberta. Alberta Central's consolidated financial statements comprise the accounts of Alberta Central and its proportionate share of the assets, liabilities, revenue and expenses of its joint ventures, Credit Union Payment Services (CUPS) and CU Electronic Transaction Services (CUETS) (Note 10). CUPS provides payment services and related support services to the members of Alberta Central, SaskCentral and other organizations. CUETS was formerly a credit card processing entity with no active operations and was dissolved in December 2011. The consolidated financial statements also comprise Alberta Central's equity share of the income (loss) of its significantly influenced associate, Celero Solutions (Celero) (Note 9). Celero provides information technology services to credit unions, its owners, Alberta Central, SaskCentral, Manitoba Central and Concentra Financial Services Association, and to other organizations.

2. Basis of preparation

a) Statement of compliance

Alberta Central prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as defined in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB). Alberta Central applied these standards effective for years beginning on January 1, 2011. Accordingly, these are Alberta Central's first annual consolidated financial statements prepared in accordance with IFRS. These consolidated financial statements have also been prepared in accordance with the accounting requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI) and Alberta Finance. The accounting requirements of OSFI and Alberta Finance are compliant with IFRS.

In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. The consolidated financial statements have been prepared in compliance with IFRS. Alberta Central has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. An explanation of the impact of the transition to IFRS on Alberta Central's reported financial position, financial performance and cash flows is provided in Note 4.

These consolidated financial statements for the year ended December 31, 2011 have been approved for issue by the Board of Directors on February 29, 2012.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the following:

- held for trading financial instruments are measured at their fair value
- available-for-sale financial assets are measured at their fair value, except as described in Note 23
- defined benefit pension plan assets and liabilities are measured at their present value

c) Presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also Alberta Central's functional currency.

d) Significant estimates, judgements and assumptions

Alberta Central's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of these consolidated financial statements.

Alberta Central's management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that are potentially material for Alberta Central's results and financial position are described below:

As described in Note 3(b), a loan loss provision is estimated for both specific individual loans that are individually significant (specific loan loss provision) as well as the collective portfolio (non-specific loan loss provision). In assessing whether specific and non-specific loan impairment exists, Alberta Central management makes judgements as to whether there is any observable data indicating an impairment trigger and whether the loss event(s) has an impact on the estimated future cash flows of the loan.

Furthermore, judgements and estimates are made by management in determining the specific and non-specific loan loss provisions. To determine the specific loan loss provisions, management must make judgements regarding the creditworthiness of individual borrowers, the timing of receipt of future cash flows (repayment from the borrowers), and estimate the net realizable value and timing of the realization of the collateral underlying the loan. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in industry and economic conditions. Refer to Note 11 for the carrying value of the allowance for credit losses.

The fair value of financial instruments where no active market exists, or where quoted prices are not otherwise available, is determined by using valuation techniques. In these cases, the fair value is estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions regarding credit risk, market liquidity and timing of future cash flows. The use of valuation techniques in calculating the fair value of Alberta Central's securities is discussed further in Note 8.

In calculating deferred income taxes, Alberta Central management makes assumptions regarding timing and effective tax rates when temporary differences reverse. The calculation is also subject to uncertainty regarding the magnitude of non-capital losses available for carry-forward and of balances in various tax pools as the assessment of the corporate tax return by the Canada Revenue Agency occurs subsequent to the issuance of the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future years could be material. Note 7 provides detail on the carrying value of recognized tax losses.

3. Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Interest income on loans is recognized on an accrual basis using the effective interest method, except for interest earned on impaired loans. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount. Interest earned on securities is recognized on an accrual basis as interest income. Interest income on a financial asset, or a group of similar financial assets written down as a result of an impairment loss, is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Membership dues income is recognized on a straight-line basis over the year. Other revenue is recognized as services are provided, when the amount can be reliably measured and deemed collectible.

Alberta Central reviews its financial assets, specifically its commercial loan and mortgage portfolio, and securities, for impairment on a quarterly and annual basis. A financial asset or group of financial assets is impaired only if there is objective evidence that one or more events that occurred after the initial recognition of the asset(s) has had an impact on the estimated future cash flows of the asset(s) and the impact can be reliably estimated. Alberta Central first assesses whether objective evidence of impairment exists individually for assets that are individually significant, and collectively for assets that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed asset, the asset is grouped with others that have similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan, and loan portfolio, level. A specific provision is established by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. The specific provision is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the provision for credit losses in the consolidated statement of income and comprehensive income.

A non-specific provision is established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio for which a specific provision cannot yet be determined. A non-specific provision is based on observable data such as historical credit loss experience, known portfolio risks, and current economic conditions. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in economic conditions. Delinquency rates are regularly benchmarked against actual outcomes to ensure that they remain appropriate. The non-specific loan loss provision is recognized through the use of an allowance account and is recognized in the provision for credit losses in the consolidated statement of income and comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the loan or allowance. The amount of the reversal is recognized in the provision for credit losses on the consolidated statement of income and comprehensive income. Alberta Central writes off amounts charged to the allowance account against the carrying amount of an impaired loan when all collateral has been liquidated and no future cash flows are expected.

Alberta Central periodically assesses impairment of all of its securities, except those classified as held for trading. Management considers significant financial difficulty of the issuer, the disappearance of an active market for a security due to financial difficulties, or a significant or prolonged decline in the fair value of an available-for-sale equity security below its cost as objective evidence of impairment resulting in the recognition of an impairment loss. For securities measured at amortized cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the security's original effective interest rate. For securities measured at cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar security. For securities classified as available-for-sale, the amount of the cumulative loss in fair value recognized in accumulated other comprehensive income and reclassified to net income is the difference between the security's acquisition cost and current fair value, less any previously recognized impairment.

Impairment losses can only be reversed on securities measured at amortized cost and debt securities classified as available-for-sale, and only when the decrease in impairment loss can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal is recognized in net income.

c) Employee benefits

a) Short-term employee benefits

Short-term employee benefits include all benefits and payments made on behalf of Alberta Central personnel including wages, salaries, vacation, medical and dental benefits and short-term incentive compensation, and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans provided Alberta Central has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

b) Post-employment benefits

Alberta Central's post-employment benefit program consists of both a defined contribution and defined benefit pension plan.

Defined contribution pension plan

Alberta Central contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a pension plan under which Alberta Central pays fixed contributions to a third party and has no legal or constructive obligations to pay further amounts. The contributions are recognized as a personnel expense when they are due in respect of service rendered to the end of the reporting period.

Defined benefit pension plan

The defined benefit pension plan is a pension plan for executive management. A defined benefit pension plan defines an amount of pension benefit that an executive will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The amount of the defined benefit asset or liability recognized in the consolidated statement of financial position is equal to the present value of the defined benefit obligation as at the year-end reduced by the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Canadian dollars, and that have terms to maturity approximating the terms of the related pension asset or liability. Actuarial gains (losses) are recognized as an expense in the consolidated statement of income and comprehensive income in the year in which they occur.

c) Long-term employee benefits

Long-term employee benefits include Alberta Central's long-term incentive plan for executive management.

d) Termination benefits and retiring allowances

Alberta Central recognizes termination benefits and retiring allowances when it is demonstrably committed to terminating the employment of a current employee according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than one year after the date of the consolidated statement of financial position are discounted to present value, if material.

d) Income taxes

Income tax expense comprises both current and deferred income tax.

Current income tax

Current income tax is the expected tax payable (receivable) on the taxable income (loss) for the year. It is calculated on the basis of the applicable tax law in Alberta using rates enacted or substantially enacted at year-end. Current income tax is recognized as an expense (recovery) in the consolidated statement of income and comprehensive income except to the extent it relates to items that are charged (credited) in other comprehensive income or directly to equity. In such circumstances, it is charged (credited) to other comprehensive income or equity.

If Alberta Central has tax losses during the year that may be offset against a tax liability for a previous year, these losses are recognized as an asset and a reduction of income tax expense. Where tax losses can be carried forward against taxable income of future years, a deductible temporary difference arises. Those losses offset deferred tax liabilities recognized in the consolidated statement of financial position.

Deferred income tax

Alberta Central follows the liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized on temporary differences arising between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are calculated using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse.

Deferred tax assets are recognized when it is probable that future taxable income will be available against which these temporary differences can be utilized. Any changes in deferred tax assets or liabilities during the year are reflected in income tax expense on the consolidated statement of income and comprehensive income unless they relate to items that are recognized in other comprehensive income or accumulated other comprehensive income.

Alberta Central's principal temporary differences arise from depreciation and amortization of capital and intangible assets, charges for non-specific loan impairment, revaluation of available-for-sale financial assets, provisions for post-employment benefits and loss carry-forwards.

The tax effects of carry-forwards of unused losses are recognized as an asset when it is probable that future taxable income will be available against which these losses can be utilized.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are recognized in other comprehensive income, is also recognized in other comprehensive income and subsequently in the consolidated statement of income and comprehensive income together with the deferred gain (loss).

e) Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are re-translated into Canadian dollars using the closing rate as at the reporting date. Foreign currency differences arising on translation of foreign currency transactions and monetary items are recognized in income. Foreign currency differences arising on translation of foreign currency non-monetary financial assets and liabilities classified as held for trading are recognized as part of the fair value gain (loss). Foreign currency differences on non-monetary financial assets classified as available-for-sale are recognized in accumulated other comprehensive income.

f) Cash and cash equivalents

Cash resources consist of cash and items in transit. It also includes restricted cash pledged as described in Note 22.

g) Investment in an associate

Alberta Central uses the equity method to account for its associate over which it exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Under this method, the investment is initially recognized at cost and is adjusted for Alberta Central's share of income (loss) and distributions received from the investee. Investments are written down to recognize losses, if any, in the value of the investment. Alberta Central assesses impairment of its investment in an associate as described in Note 3(b).

When Alberta Central's share of losses in an associate equals or exceeds its interest in the investment, including any other unsecured receivables, Alberta Central does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment.

For preparation of the consolidated financial statements, consistent accounting policies for comparable transactions and events in similar circumstances are used. Financial information on Alberta Central's associate is included in Note 9.

h) Investment in joint entities

Alberta Central uses the proportionate consolidation method to account for its investments in jointly controlled entities. A jointly controlled entity is a joint venture that involves formation of a separate entity and creation of a contractual arrangement between the venturers to establish joint control over the economic activity of the entity. Under this method, Alberta Central's proportionate share of the joint ventures' assets, liabilities, revenue and expenses is combined with similar items, line by line, in its consolidated financial statements.

Intercompany gains on transactions between Alberta Central and the joint ventures are eliminated to the extent of Alberta Central's interest in the joint ventures. Intercompany losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial information on Alberta Central's joint ventures, CUPS and CUETS, is included in Note 10.

i) Capital assets

Capital assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Computer hardware	3 years
Equipment	3 years
Furniture	10 years
Leasehold improvements	Term of the lease to 2021

Depreciation on computer hardware and equipment commences once the assets are placed into production. The residual values and useful lives of the capital assets are reviewed, reassessed each reporting period and adjusted if appropriate.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

Intangible assets consist of acquired operating software assets recognized at historical cost and amortized using the straight-line method over their estimated useful economic lives ranging from three to five years.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

Dividends on Alberta Central's member shares are recognized in equity in the period in which they are approved by Alberta Central's Board of Directors.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated statement of income and comprehensive income on a straight-line basis over the period of the lease.

All financial assets are classified as held for trading, available-for-sale, held to maturity or loans and receivables. All financial liabilities are classified as held for trading or other financial liabilities. Management determines the classification of its instruments at initial recognition. Financial assets and liabilities are recognized when Alberta Central becomes a party to the contractual provisions of the instrument.

A financial asset or liability must be classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative instruments must be classified as held for trading and measured at fair value unless they are designated as an effective hedging instrument. Alberta Central has no derivatives designated as accounting hedges. Alberta Central may designate any financial asset or liability as held for trading if certain specified conditions are met.

Alberta Central has classified cash and items in transit, certain securities, derivative financial assets and derivative financial liabilities as held for trading. Certain securities have been designated as held for trading in order to eliminate the need to bifurcate embedded derivatives within the securities. All financial assets and liabilities classified as held for trading are initially and subsequently measured at fair value with gains (losses) recognized in net income. Any interest earned or incurred is recognized on an accrual basis as interest income or expense.

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Alberta Central has classified certain securities as available-for-sale.

Financial assets classified as available-for-sale are initially and subsequently measured at fair value with unrealized gains (losses) recognized in other comprehensive income, except for impairment losses, which are recognized in net income. Equity securities classified as available-for-sale which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost. Their fair value cannot be reliably measured when the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. Changes in fair value are accumulated in accumulated other comprehensive income in the consolidated statement of financial position. When unrealized gains (losses) become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to net income. Any interest earned is recognized on an accrual basis as interest income.

Held to maturity financial assets are those with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If Alberta Central were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available-for-sale.

As at December 31, 2011, Alberta Central has not classified any financial assets as held to maturity; however, certain securities were classified as such at December 31 and January 1, 2010. Held to maturity financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. Any interest earned is recognized on an accrual basis as interest income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that Alberta Central intends to sell immediately or in the short term, or those designated as available-for-sale. Alberta Central has classified its accounts receivable, certain securities and loans as loans and receivables.

Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Any interest earned is recognized on an accrual basis as interest income.

Financial liabilities that do not fall under the held for trading category are classified as other financial liabilities. Alberta Central has classified its accounts payable and accrued liabilities, members' deposits, and loans and notes payable as other financial liabilities.

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Any interest incurred is recognized on an accrual basis as interest expense.

Accumulated other comprehensive income is included on the consolidated statement of financial position as a separate component of members' equity and includes unrealized gains (losses) on available-for-sale securities.

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Embedded derivatives must be separated from the host instrument and accounted for separately if the economic

characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument and the host instrument is not already measured at fair value with changes in fair value recognized in net income. Where Alberta Central is required to separate an embedded derivative from its host instrument but is unable to measure the fair value of the embedded derivative separately, the entire instrument is treated as a held for trading financial instrument measured at fair value with changes in fair value measured in net income.

Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading and are capitalized upon initial recognition for all other financial instruments.

Determination of fair value

For financial instruments traded in an active market, fair value is determined by reference to quoted market prices or dealer price quotations. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where independent quoted market prices are not available, fair value is determined by reference to recent arm's length market transactions for similar instruments, the current fair value of other instruments having substantially the same terms, conditions and risk characteristics or through the use of valuation techniques.

With the use of valuation techniques, fair value is estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the date of the consolidated statement of financial position. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

Alberta Central uses valuation techniques primarily to value its derivatives, certain unquoted equity investments and other financial instruments for which markets were or have become illiquid.

Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of ownership of the assets have been transferred. Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

(i) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and will be applicable for Alberta Central's accounting periods after 2011. Alberta Central is currently assessing the expected impact, if any, that the adoption of each of these standards will have on the consolidated financial statements.

IAS 1 Presentation of Financial Statements

The IASB amended this standard to require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to net income in the future. This newly amended standard is effective for financial years beginning on or after July 1, 2012.

IAS 19 Employee Benefits

The IASB amended this standard to eliminate the option to defer the recognition of actuarial gains (losses), commonly known as the corridor approach, and to require that these gains (losses) be recognized in other comprehensive income (loss) immediately. In addition, the net change in the defined benefit liability or asset must be disaggregated into three components: service cost, net interest and remeasurements. Service cost is required to be presented in net income and net interest cost is required to be presented as part of finance costs in net income. Remeasurements, which include changes in estimates or

the valuation of plan assets, will now be recognized only in other comprehensive income (loss). The amended standard also includes enhanced disclosure requirements around the characteristics of defined benefit plans and the risks that an entity is exposed to through participation in such plans. This amended standard is effective for financial years beginning on or after January 1, 2013.

This standard continues to prescribe accounting requirements for investments in associated entities; however, it has been revised to include requirements for the application of the equity method when accounting for investments in joint ventures. This amended standard is effective for financial years beginning on or after January 1, 2013.

This new standard is the result of the first phase of the IASB's project to replace IAS 39 "Financial instruments: recognition and measurement". The new standard has exchanged the current multiple classification categories with only two categories: amortized cost and fair value. Furthermore, the measurement model for equity instruments has changed to require that all equity instruments be measured at fair value.

Portions of this standard relating to impairment and hedge accounting remain in development and the full impact of the standard on Alberta Central's consolidated financial statements will be unknown until the full completion of the project. This new standard is effective for financial years beginning on or after January 1, 2013. There is currently a proposal outstanding to defer the effective date to financial years beginning on or after January 1, 2015.

IFRS 10 replaces IAS 27 "Consolidation and separate financial statements" and SIC-12 "Consolidation – special purpose entities". This new standard provides a single model for assessing control for all types of investees. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under the current IFRS standard, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This new standard is effective for financial years beginning on or after January 1, 2013.

IFRS 11 replaces IAS 31 "Interests in joint ventures" and SIC-13 "Jointly controlled entities – non-monetary contributions by venturers". This new standard replaces the current three types of joint arrangements into two: joint operations and joint ventures. Joint ventures will be required to be accounted for using the equity method whereas joint operations will be accounted for using proportionate consolidation. This new standard is effective for financial years beginning on or after January 1, 2013.

IFRS 12 "Disclosure of interests in other entities"

This new standard establishes disclosure requirements for interest in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. This new standard is effective for financial years beginning on or after January 1, 2013.

IFRS 13 "Fair value measurement"

IFRS 13 is a complete standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. This new standard is effective for financial years beginning on or after January 1, 2013.

Early adoption of the above-noted standards is permitted subject to regulatory approval. Alberta Central did not early adopt new or amended standards under IFRS in 2011. Alberta Central plans to adopt the new or amended standards in its first full fiscal year following each of the effective dates.

4. Transition to IFRS

a) IFRS exemptions

In preparing these consolidated financial statements, Alberta Central has elected to apply the following exemptions from other IFRSs as permitted by IFRS 1 *"First-time adoption of International Financial Reporting Standards"*:

Capital assets

Alberta Central has elected to use the depreciated cost at transition date rather than fair value for its capital assets.

Employee benefits

IAS 19 *"Employee benefits"* requires disclosure of the present value of the defined benefit obligation, the fair value of the plan assets, the surplus (deficit) in the plan and any adjustments for changes made to actuarial assumptions for four previous years. Alberta Central has applied the optional exemption to disclose this information prospectively from the date of transition to IFRS.

Investments designated as held for trading

Alberta Central has applied the optional exemption to reclassify certain securities previously classified as available-for-sale to the held for trading category at the date of transition to IFRS. The fair value of the securities at the date of transition was $5,171.

The accounting policies presented in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and the opening consolidated statement of financial position at January 1, 2010 (Alberta Central's date of transition to IFRS). Reconciliations and explanatory notes on the impact of the transition to IFRS on Alberta Central's consolidated financial position and financial performance previously reported under Canadian GAAP are provided below. There were no material adjustments to the consolidated statement of cash flows from the adoption of IFRS.

Effect of IFRS adoption upon the consolidated statement of income and comprehensive income:

		December 31, 2010		
	Notes	Under previous Canadian GAAP	Effect of transition to IFRS	Under IFRS
Financial income	i)	23,725	807	24,532
Financial expenses	ii)	10,828	62	10,890
Net interest income		12,897	745	13,642
Provision for credit losses on commercial loans and mortgages	i)	(1,316)	(807)	(2,123)
Gain on sale of securities		157	–	157
		11,738	(62)	11,676
Operating income	iii)	23,213	368	23,581
Operating expenses	ii) & iii)	(25,417)	(232)	(25,649)
Equity loss in Celero Solutions	iv)	(3,649)	769	(2,880)
Income before the under noted		5,885	843	6,728
Increase in estimated fair value of ABCP		4,000	–	4,000
Income before income taxes		9,885	843	10,728
Income taxes	iii)	1,542	45	1,587
Net income from continuing operations		8,343	798	9,141
Net income from discontinued operations	iii)	1,235	(1,235)	–
Net income		**9,578**	**(437)**	**9,141**
Other comprehensive income		307	–	307
Comprehensive income		**9,885**	**(437)**	**9,448**

Effect of IFRS adoption upon the consolidated statement of financial position:

		January 1, 2010			December 31, 2010		
	Notes	Under previous Canadian GAAP	Effect of transition to IFRS	Under IFRS	Under previous Canadian GAAP	Effect of transition to IFRS	Under IFRS
Assets							
Securities	v)	1,726,323	1,634	1,727,957	1,798,522	1,634	1,800,156
Deferred income tax asset	iii) & v)	7,329	(524)	6,805	6,243	(337)	5,906
Assets of discontinued operations	iii)	3,680	(3,680)	–	1,987	(1,987)	–
Other assets	ii) & iii)	329,789	5,181	334,970	279,561	2,644	282,205
Total assets		**2,067,121**	**2,611**	**2,069,732**	**2,086,313**	**1,954**	**2,088,267**
Liabilities							
Share redemption liability	vi)	–	15,878	15,878	–	–	–
Liabilities of discontinued operations	iii)	651	(651)	–	274	(274)	–
Other liabilities	iii) & iv)	1,850,961	840	1,851,801	1,857,377	242	1,857,619
Total liabilities		**1,851,612**	**16,067**	**1,867,679**	**1,857,651**	**(32)**	**1,857,619**
Members' equity							
Common share capital	vi)	181,708	(15,878)	165,830	187,392	–	187,392
Retained earnings	ii), iii) & iv)	33,819	943	34,762	40,981	507	41,488
Accumulated other comprehensive income (loss)	v)	(18)	1,479	1,461	289	1,479	1,768
Total members' equity		**215,509**	**(13,456)**	**202,053**	**228,662**	**1,986**	**230,648**
		2,067,121	**2,611**	**2,069,732**	**2,086,313**	**1,954**	**2,088,267**

Notes to the reconciliations:

i. Interest income on impaired loan

Alberta Central has a commercial loan that is impaired. Under Canadian GAAP, the recognition of interest income on the impaired loan was discontinued. Under IFRS, interest income on the impaired loan continues to be recognized at the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. As a result of non-payment of accrued interest on the impaired loan, a provision against the interest income is recognized in the provision for credit losses on commercial loans and mortgages.

ii. Actuarial gains (losses)

Actuarial gains (losses) were previously accounted for in the year following the year to which they related. During the course of transition to IFRS, Alberta Central has accounted for actuarial gains (losses) in the year to which they relate.

iii. CUETS joint venture

On October 1, 2007, Alberta Central sold its interest in CUETS, a credit card processing entity, and received certain proceeds under non-compete clause provisions in the sale agreement. Under Canadian GAAP, Alberta Central deferred and amortized the CUETS non-compete proceeds on a straight-line basis over the term of the non-compete agreement to September 30, 2011. Under IFRS, non-compete revenue is required to be accounted for as a gain at the time of receipt, net of applicable income taxes.

The CUETS joint venture has no active operations, and was dissolved in December 2011. Under Canadian GAAP, Alberta Central accounted for the joint venture as a discontinued operation. Under IFRS, the CUETS joint venture does not meet the definition of a discontinued operation. Therefore, its remaining operations have been proportionately consolidated into Alberta Central's consolidated financial statements.

iv. *Everlink goodwill impairment*

As discussed in Note 9, Alberta Central has a 31.4 percent interest in Celero. Celero, in turn, has a 49 percent interest in Everlink Payment Services Inc. (Everlink). Under its transition from Canadian GAAP to IFRS, Everlink has reviewed its goodwill impairment and determined that it had incurred an impairment of goodwill of $5,350 under IFRS at January 1, 2010 rather than the previously reported $5,000 under Canadian GAAP at December 31, 2010. The change in the amount and timing of the impairment is due to different impairment testing requirements under IFRS. Alberta Central's share of the impairment is 15.4 percent.

v. *Available-for-sale securities*

Under Canadian GAAP, available-for-sale financial assets that do not have a quoted market price in an active market are measured at cost. Under IFRS, unquoted equities are measured at fair value unless fair value is not reliably measurable. As a result, Alberta Central adjusted the fair value of certain unquoted equities with a corresponding adjustment to accumulated other comprehensive income.

vi. *Common share capital*

Prior to September 2010, approval from Alberta Central's Board of Directors was not required for the redemption of Class A common shares. Under Canadian GAAP, Alberta Central presented these shares as equity. Under IFRS, shares with these features and in excess of the specified minimum amounts in the bylaws are required to be presented as liabilities.

Effective with a bylaw change in September 2010, all requests for redemption of common share capital require approval from Alberta Central's Board of Directors. As a result, all common share capital was classified as equity after August 2010.

6. Operating income and operating expenses

	2011	2010
Operating income		
Financial services	13,298	12,609
Member dues	4,990	5,901
Other	4,563	5,071
	22,851	**23,581**
Operating expenses		
Personnel	11,381	12,699
Property and equipment	4,387	4,411
Administration and other	5,863	5,888
Organization	2,354	2,651
	23,985	**25,649**

Included within financial services income is $655 (2010 – $462) of foreign exchange gains.

Personnel expenses consist of the following:

	2011	2010
Salaries and other short-term employee benefits	9,948	9,893
Post-employment benefits	887	1,163
Long-term employee benefits	462	438
Termination benefits and retiring allowances	84	1,205
	11,381	**12,699**

6. Employee benefits

a) Defined contribution pension plan

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of $414 (2010 – $411) is included in personnel expense in operating expenses in the consolidated statement of income and comprehensive income.

b) Defined benefit pension plan

Alberta Central also contributes annually to a defined benefit pension plan for executive management. This plan is fully funded by Alberta Central. Concentra Trust is the trustee and custodian of the plan.

The principal actuarial assumptions used are as follows:

	2011	2010
Discount rate	5.3%	5.5%
Expected return on plan assets	3.0%	3.0%
Future salary increases	5.0%	5.0%

Plan assets are limited to government of Canada securities and cash. The overall expected rate of return on assets is determined by considering the expected returns available on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments. The actual return on plan assets was $15 (2010 – $6).

The movement in the fair value of plan assets and defined benefit obligation over the year is as follows:

	2011	2010
Fair value of plan assets, beginning of year	3,820	3,647
Expected return on plan assets	63	56
Actuarial losses	(48)	(50)
Employer contributions	934	292
Benefits paid	(97)	(125)
Fair value of plan assets, end of year	4,672	3,820
Defined benefit obligation, beginning of year	3,097	2,517
Current service cost	193	188
Interest cost	178	176
Actuarial losses	60	341
Benefits paid	(97)	(125)
Defined benefit obligation, end of year	3,431	3,097
Plan surplus	**1,241**	**723**

The amounts recognized in the consolidated statement of income and comprehensive income are as follows:

	2011	2010
Current service cost	193	188
Interest cost	178	176
Expected return on plan assets	(63)	(56)
Net actuarial losses	108	391
	416	**699**

Alberta Central expects to contribute $876 to the defined benefit plan next year.

c) Termination benefits and retiring allowances

At December 31, 2011, $150 (December 31, 2010 – $1,071; January 1, 2010 – $nil) of termination benefit and retiring allowances had not been paid and were included in accounts payable and accrued liabilities in the consolidated statement of financial position.

7. Income taxes

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 19.0 percent (2010 – 19.2 percent). Income taxes calculated at substantively enacted rates differ from the provision included in the consolidated statement of income and comprehensive income for the following reasons:

	2011	2010
Income taxes at substantively enacted rates	2,337	2,054
Increase (decrease) in income taxes resulting from:		
Non-taxable amounts	37	(2)
Impact of rate changes on temporary differences	60	(410)
Other	112	(55)
Provision for income taxes	**2,546**	**1,587**

The deferred income tax asset is attributable to the following:

	December 31 2011	December 31 2010	January 1 2010
Deferred income tax asset:			
Depreciation and amortization	2,234	1,979	1,355
Charges for non-specific loan impairment	303	230	141
Loss carry-forwards	1,020	4,008	6,328
Other	185	349	–
	3,742	6,566	7,824
Deferred income tax liability:			
Post-employment benefits	(229)	(170)	(187)
Available-for-sale financial assets	(9)	(305)	(159)
CUETS deferred revenue	–	(182)	(369)
Other	–	(3)	(304)
	(238)	(660)	(1,019)
Net deferred income tax asset	**3,504**	**5,906**	**6,805**
Current	1,011	1,029	(159)
Non-current	2,493	4,877	6,964

The deferred income tax expense included in the consolidated statement of income and comprehensive income comprises the following temporary differences:

	2011	2010
Depreciation and amortization	(144)	(624)
Charges for non-specific loan impairment	(74)	(89)
Loss carry-forwards	3,529	2,307
Post-employment benefits	60	(17)
Available-for-sale financial assets	(69)	73
CUETS deferred revenue	(654)	–
Other	(102)	(63)
Deferred income tax expense	**2,546**	**1,587**

Alberta Central has non-capital loss carry-forwards of $5,380 (December 31, 2010 – $20,928; January 1, 2010 – $34,807) which are available to offset future taxable income and which expire in 2028. Deferred income tax assets are recognized for tax losses carried forward only to the extent that realization of the related tax benefit is probable.

8. Securities

	Classification	December 31 2011	December 31 2010	January 1 2010
Government				
	Held for trading	35,183	25,004	–
	Available-for-sale	93,609	94,638	171,442
	Held to maturity	–	40,267	139,493
		128,792	159,909	310,935
Corporate				
	Held for trading	199,478	152,208	160,692
	Available-for-sale	1,524,942	1,441,489	1,169,785
	Held to maturity	–	30,117	56,684
		1,724,420	1,623,814	1,387,161
Venturer's capital in Celero (Note 9)	Available-for-sale	4,081	5,620	5,620
Credit Union Central of Canada	Available-for-sale	649	6,055	6,033
Central 1 subordinated debt	Available-for-sale	6,000	–	–
Mortgage pooling funds	Loans and receivables	99	734	14,998
		1,864,041	1,796,132	1,724,747
	Held for trading	234,661	177,212	160,692
	Available-for-sale	1,629,281	1,547,802	1,352,880
	Held to maturity	–	70,384	196,177
	Loans and receivables	99	734	14,998
		1,864,041	1,796,132	1,724,747
Accrued interest receivable		4,644	4,024	3,210
		1,868,685	1,800,156	1,727,957

Alberta Central holds $6,000 in subordinated debt of Central 1 Credit Union (Central 1), which was issued on July 6, 2011 in conjunction with the transition in the group clearing role for Canadian credit unions from Credit Union Central of Canada (CUCC) to a legal joint venture between Alberta Central, Central 1, SaskCentral and Credit Union Central of Manitoba. While the group clearing joint venture is legally structured as a joint venture, it does not qualify as such for accounting purposes as Alberta Central does not have joint control. Under the terms of the *Group Clearing Joint Venture Agreement*, Central 1 functions operationally as the group clearer and represents the credit union system to the Canadian Payments Association. Alberta Central's interest in the clearing joint venture is 16.67 percent and the investment is therefore accounted for at cost. The subordinated debt matures on July 6, 2021 and bears interest at the 90-day bankers' acceptance rate plus ten basis points, payable quarterly in arrears. The notes may be redeemed at the option of Central 1, with the approval of OSFI and the Financial Institutions Commission of British Columbia, at a redemption price equal to par.

At December 31, 2011, $224,317 of securities were pledged to the Bank of Canada under the terms of the *Credit Union System Group Clearing Agreement* (Note 16) and are restricted from Alberta Central's use. At December 31, 2010, $100,070 (January 1, 2010 – $109,470) of securities were pledged to the Bank of Canada under the terms of the former *Group Clearing Agreement*.

At December 31, 2011, Alberta Central held non-bank and bank sponsored ABCP with a total face value of $204,564 (December 31, 2010 – $212,428; January 1, 2010 – $219,406). All of the ABCP investments have been designated as held for trading financial assets as Alberta Central manages the group of ABCP investments together on a fair value basis. At the dates of acquisition, these were short-term investments rated R1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, they were restructured into longer-term floating-rate notes reflecting the maturity of the related underlying assets as outlined in the following table:

	Expected Maturity	DBRS Rating	Coupon Rate
MAV 2			
Class A-1	2017	A (high)	Bankers' acceptance minus 50 basis points[1]
Class A-2	2017	BBB (high)	Bankers' acceptance minus 50 basis points[1]
Class B	2017	None	Bankers' acceptance minus 50 basis points, payable after principal and interest has been paid on Class A-1 and A-2
Class C	2017	None	Bankers' acceptance plus 20 percent, payable after principal and interest has been paid on Class A-1, A-2 and B
Tracking notes for ineligible assets	2056	None	Floating[2]
MAV 3			
Tracking notes for traditional assets	2017	None to AAA	Floating[2]
Tracking notes for ineligible assets	2017	None	Floating[2]
Bank ABCP			
Rated	2016	A (low)	Bankers' acceptance plus 35 basis points[1]
Unrated	2013 to 2016	None	Bankers' acceptance[1]

[1] *Payable quarterly*
[2] *Coupon rate floats based on return of underlying assets, net of expenses*

The MAV 2 notes are backed by synthetic collateralized debt obligations or a combination of traditional assets and synthetic collateralized debt obligations. The notes have levels of subordination relative to potential losses and principal and interest payments. MAV 2 also contains tracking notes for ineligible assets (US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

Certain MAV 3 notes are backed solely by traditional assets while other MAV 3 notes are backed by ineligible assets (US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

Alberta Central holds two bank-sponsored ABCP notes. These notes have an exposure to commercial mortgages and leveraged super senior tranches of mortgage-backed securities.

Alberta Central's holdings of MAV 2 Class C ABCP with a face value of $5,107 and an estimated fair value of $198 were sold in March 2011 for proceeds of $1,328 and a gain of $1,130.

During the year, Alberta Central received principal payments of $2,757 (2010 – $5,790) and earned interest of $1,711 (2010 – $913) on these investments. On June 1, 2011, DBRS placed the MAV 2 Class A-1 and A-2 notes under review with positive implications. On September 23, 2011 DBRS upgraded the MAV 2 Class A-2 notes from BBB (low) to BBB (high). The A (high) rating of the MAV 2 Class A-1 notes remained under review with positive implications. On February 3, 2012 DBRS maintained the under review with positive implications status of the MAV 2 Class A-1 notes and confirmed the BBB (high) rating of the MAV 2 Class A-2 notes.

The ABCP notes are carried at fair value. There have been a limited number of trades in the ABCP notes but Alberta Central does not consider them to be of sufficient volume or value to constitute an active market. In the absence of an active market for ABCP, and consistent with the valuation approach in the prior year, Alberta Central has estimated the fair value of these assets using a discounted cash flow valuation model incorporating management's best estimates of credit risk attributable to underlying assets, market interest rates and other factors that a market participant would consider for such investments. The discount rates underlying the cash flow valuation are based on appropriate forward-credit indices, adjusted for estimated premiums to reflect the expected lack of liquidity in the paper. Note coupon rates and maturities are based on the anticipated terms of the paper. Estimated fair values vary by type of note held and are subject to significant measurement uncertainty, both by type of note and in aggregate.

Based on these assumptions, Alberta Central recorded an increase in the estimated fair value of ABCP of $9,000 (2010 – $4,000) in the consolidated statement of income and comprehensive income.

Alberta Central held the following investments in bank and non-bank sponsored ABCP with fair values as indicated:

	Face Value Received Upon Restructuring	Sold, Discharged or Principal Repaid	Face Value at December 31, 2011	Face Value at December 31, 2010	Face Value at January 1, 2010
Non-bank sponsored ABCP					
MAV 2 notes:					
Class A-1	98,577	(316)	98,261	98,261	98,321
Class A-2	56,334	–	56,334	56,334	56,334
Class B	10,226	–	10,226	10,226	10,226
Class C	5,107	(5,107)	–	5,107	5,107
Tracking notes	9,953	(3,238)	6,715	6,798	8,015
	180,197	(8,661)	171,536	176,726	178,003
MAV 3 tracking notes:					
Traditional asset					
Rated	27,482	(25,562)	1,920	3,684	7,749
Unrated	7,434	(3,976)	3,458	4,017	5,178
Ineligible asset	6,979	(2,122)	4,857	5,208	5,683
	41,895	(31,660)	10,235	12,909	18,610
Non-bank sponsored ABCP	222,092	(40,321)	181,771	189,635	196,613
Bank Sponsored ABCP					
Rated	13,204	–	13,204	13,204	13,204
Unrated	9,589	–	9,589	9,589	9,589
Bank sponsored ABCP	22,793	–	22,793	22,793	22,793
Total ABCP	244,885	(40,321)	204,564	212,428	219,406
Face value at December 31			204,564	212,428	219,406
Accrued interest			2,567	2,574	2,261
Fair value adjustment at December 31			(78,529)	(92,438)	(97,627)
Fair value at December 31			**128,602**	**122,564**	**124,040**

As the fair value of ABCP has been estimated using a discounted cash flow model based on the assumptions noted above, it is reasonably possible that changes in conditions in the near term could result in a material change in the estimated fair value. An increase of 25 basis points in the discount rate would result in a $2,228 (December 31, 2010 – $2,198; January 1, 2010 – $2,603) decrease in the fair value of ABCP and a decrease of 25 basis points would result in a $2,275 (December 31, 2010 – $2,238; January 1, 2010 – $2,663) increase in the fair value of ABCP.

9. Investment in an associate

Alberta Central has a 31.4 percent interest in Celero. While Celero is legally structured as a joint venture, it does not qualify as such for accounting purposes as Alberta Central does not have joint control. Accordingly, Alberta Central accounts for its investment in Celero using the equity method.

Alberta Central's investment in Celero, excluding amounts due to/from Celero for operating activities, is included in the following consolidated statement of financial position categories:

	December 31		January 1
	2011	2010	2010
Securities (Note 8)	4,081	5,620	5,620
Loans (Note 11)	6,044	10,377	10,710
Accounts payable and accrued liabilities	(939)	(3,389)	(5,065)

During 2011, Alberta Central received $1,539 from Celero as a return of capital invested in securities. Subsequent to year-end, Alberta Central received $308 as a return of capital invested in securities.

Aggregated financial information of Celero is as follows:

	December 31		January 1
	2011	2010	2010
Assets	41,354	56,371	47,379
Liabilities	31,918	51,061	47,157
Revenue	80,515	75,157	
Income (loss) before equity loss in Everlink	162	(10,136)	
Comprehensive loss	(1,150)	(10,689)	

Celero has a *Software License Agreement* in respect of a banking platform for Celero's credit union clients under which Celero is committed to $12,068 (2010 – $15,085) with a third party software vendor in software maintenance fees over the next four years. Celero has entered into agreements with credit unions to fully recover these costs through operating fees over the term of the agreement. Pursuant to various addendums to the *Software License Agreement*, Celero is committed to pay $5,956 (2010 – $7,445) in ancillary product maintenance and support fees over the next four years to the same vendor.

Celero has an agreement with a third party to manage Celero's mainframe, mid-range and data centre support operations. Under the terms of this agreement, Celero is committed to $2,951 (2010 – $5,657) over the next three years.

Celero also has other obligations under various agreements for equipment, licensing, maintenance and professional fees totaling $3,760 (2010 – $7,171) over the next five years.

Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations under these agreements.

10. Investment in joint ventures

During the year, Alberta Central had a 50 percent interest in each of the CUPS and CUETS joint ventures. As discussed in Note 1, the CUETS joint venture was dissolved in December 2011. Therefore, there are no CUETS balances included in the December 31, 2011 statement of financial position balances below. Alberta Central's proportionate share of its investment in the joint ventures before inter-entity eliminations is summarized below:

	December 31 2011	December 31 2010	January 1 2010
Statement of financial position:			
Current assets	1,876	1,734	1,659
Other assets	311	2,044	3,563
Total assets	**2,187**	**3,778**	**5,222**
Current liabilities	968	1,040	1,323
Equity	1,219	2,738	3,899
Total liabilities	**2,187**	**3,778**	**5,222**
Statement of income and comprehensive income			
Operating income	10,121	10,201	
Operating expenses	(8,635)	(8,624)	
Net income	**1,486**	**1,577**	

	December 31 2011	December 31 2010	January 1 2010
Credit unions	67,500	12,340	77,699
Cooperatives	2,935	13,781	2,521
Commercial loans and mortgages	181,908	154,800	152,905
Celero (Note 9)	6,044	10,377	10,710
Employee mortgages	2,475	3,027	4,466
	260,862	194,325	248,301
Accrued interest receivable	2,397	1,626	781
	263,259	195,951	249,082
Less allowances on commercial loans and mortgages:			
Specific (Note 22)	(12,167)	(1,784)	(84)
Non-specific	(1,600)	(1,200)	(777)
	249,492	**192,967**	**248,221**
Current	198,286	68,741	123,901
Non-current	51,206	124,226	124,320

Included in accrued interest receivable is $1,746 (December 31, 2010 – $891; January 1, 2010 – $84) of interest income on an impaired loan.

The following is a reconciliation of the allowance on commercial loans and mortgages:

	2011	2010
Balance, beginning of the year	2,984	861
Increase in specific loan loss provision	10,383	1,700
Increase in non-specific loan loss provision	400	423
Balance, end of the year	**13,767**	**2,984**

	December 31 2011	December 31 2010	January 1 2010
Accounts receivable and other assets	3,027	4,418	12,286
Capital and intangible assets (Note 13)	2,196	2,563	2,057
	5,223	**6,981**	**14,343**
Current	1,812	3,692	11,185
Non-current	3,411	3,289	3,158

Included within the January 1, 2010 balance for accounts receivable and other assets is $2,778 receivable for proceeds from the sale of Alberta Central's interest in CUMIS Group Limited. The remaining accounts receivable and other assets relate to amounts owing from credit unions and affiliates.

13 Capital and intangible assets

	Equipment	Leasehold improvements	Furniture	Operating software	Total
At January 1, 2010					
Cost	4,397	5,468	3,073	4,596	17,534
Accumulated depreciation/amortization	(4,296)	(4,685)	(2,478)	(4,018)	(15,477)
Net book value	**101**	**783**	**595**	**578**	**2,057**
Year ended December 31, 2010					
Opening net book value	101	783	595	578	2,057
Additions	229	130	70	895	1,324
Impairment	–	–	–	(80)	(80)
Depreciation/amortization	(171)	(205)	(143)	(219)	(738)
Closing net book value	**159**	**708**	**522**	**1,174**	**2,563**
At December 31, 2010					
Cost	4,396	5,598	3,129	5,356	18,479
Accumulated depreciation/amortization	(4,237)	(4,890)	(2,607)	(4,182)	(15,916)
Net book value	**159**	**708**	**522**	**1,174**	**2,563**
Year ended December 31, 2011					
Opening net book value	159	708	522	1,174	2,563
Additions	54	114	6	271	445
Depreciation/amortization	(103)	(223)	(143)	(343)	(812)
Closing net book value	**110**	**599**	**385**	**1,102**	**2,196**
At December 31, 2011					
Cost	4,443	5,712	3,135	5,627	18,917
Accumulated depreciation/amortization	(4,333)	(5,113)	(2,750)	(4,525)	(16,721)
Net book value	**110**	**599**	**385**	**1,102**	**2,196**

Fully depreciated equipment with an original cost of $7 was disposed of during the year for $nil proceeds ($2010 – $230 original cost; fully depreciated). During 2010, fully depreciated furniture with an original cost of $14 and fully depreciated operating software with an original cost of $2 were disposed of for $nil proceeds.

There were no capital assets at December 31, 2011 (December 31, 2010 – original cost of $135 and accumulated depreciation of $55; January 1, 2010 – $nil) against which an impairment was recorded. Depreciation/amortization expense of $812 ($2010 – $738) is included in property and equipment expense within operating expenses in the consolidated statement of income and comprehensive income (Note 5).

Included in operating software is eroWORKS banking system software with a carrying value of $478 ($2010 – $622), which has a remaining amortization period to November 1, 2015.

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities is comprised of the following:

	December 31 2011	December 31 2010	January 1 2010
Payable to Celero Solutions (Note 9)	1,458	3,807	6,911
Personnel expense accruals	2,457	3,006	1,766
Trade payables	4,457	3,833	4,197
	8,372	**10,646**	**12,874**
Current	6,914	8,711	11,354
Non-current	1,458	1,935	1,520

15. Members' deposits

	December 31 2011	December 31 2010	January 1 2010
Current accounts and demand deposits	169,384	205,960	197,568
Money market deposits	347,831	299,493	330,038
Statutory liquidity deposits	1,319,760	1,301,731	1,269,644
	1,836,975	1,807,184	1,797,250
Accrued interest payable	3,121	3,186	1,253
	1,840,096	**1,810,370**	**1,798,503**
Current	1,840,096	1,804,799	1,798,503
Non-current	–	5,571	–

Alberta credit unions are required by Alberta Central's bylaws to maintain nine percent of their liabilities in statutory liquidity deposits and common share capital (Note 17) of Alberta Central.

16. Loans and notes payable

	December 31 2011	December 31 2010	January 1 2010
Line of credit	76,384	–	–
Commercial paper	24,997	19,993	19,997
	101,381	**19,993**	**19,997**

Effective July 6, 2011, Alberta Central entered into an agreement with Central 1 for a line of credit to a maximum of $100,000. Pursuant to the terms of the *Credit Union System Group Clearing Agreement* (Note 22), Alberta Central is obliged to pledge securities to the Bank of Canada with a Bank of Canada collateral value at least equal to 1 percent of Alberta credit union system assets to secure this line of credit (Note 8). Amounts are due on demand and bear interest at the Bank of Canada overnight rate, or such other rate charged by the Bank of Canada, for Canadian dollar advances. For US dollar advances, amounts bear interest at the rate charged to Central 1 by the correspondent US bank. The total interest paid on the line of credit during the year was $28.

Prior to July 6, 2011, Alberta Central had an agreement with Credit Union Central of Canada (CUCC) for a line of credit to a maximum of $100,000. Pursuant to the terms of the former *National Liquidity Fund Agreement*, Alberta Central was obliged to provide a general security interest over Alberta Central's property on demand by CUCC to secure this line of credit. Amounts were due on demand and bore interest at rates established by the CUCC Board of Directors. At December 31, 2010, the total interest paid was $10 based on the bank prime rate less two percent per annum.

Alberta Central is authorized to issue commercial paper to a maximum of $250,000. Amounts bear interest at a weighted-average rate of 1.16 percent (December 31, 2010 – 1.15 percent; January 1, 2010 – 0.39 percent) and have a weighted average term of 36 days (December 31, 2010 – 36 days; January 1, 2010 – 32 days).

Authorized:

Class A voting common shares – unlimited number at $5 per share

Class B non-voting common shares – unlimited number at $5 per share

Issued and outstanding:

Class A voting common shares – 38,325,031 shares (December 31, 2010 – 37,060,262; January 1, 2010 – 35,923,525)

Class B non-voting common shares – 418,218 shares (December 31, 2010 – 418,200; January 1, 2010 – 418,160)

Class A common shares are held by member credit unions and Class B common shares are held by other non-credit union organizations.

	December 31	
	2011	2010
Class A common shares:		
Balance, beginning of year	185,301	163,739
Issued	6,324	5,811
Reclassified from share redemption liability	–	15,878
Redeemed, at par	–	(127)
Balance, end of year	191,625	185,301
Class B common shares:		
Balance, beginning of year	2,091	2,091
Issued	–	–
Redeemed, at par	–	–
Balance, end of year	2,091	2,091
Total common shares	**193,716**	**187,392**

Alberta Central's bylaws require member credit unions to maintain common share capital in Alberta Central in an amount equal to one percent of each credit union's assets as at the end of the credit union's most recent fiscal year.

Alberta Central's bylaws require that Class B members maintain common shares in Alberta Central, the total par value of which is not less than $100.

Effective with a bylaw change in September 2010, all requests for redemption of common share capital require approval from Alberta Central's Board of Directors (Note 4(b)(vi)). The redemption price of all common shares is their par value of $5 per share.

18. Share capital dividends

Share capital dividends of $1,912 (2010 – $2,944) were calculated using members' minimum monthly common share capital account balances and the average monthly prime interest rate less two percent (2010 – average monthly prime interest rate less one percent). Both Class A and B members are eligible to participate in the receipt of dividends from Alberta Central. All dividends require approval from Alberta Central's Board of Directors.

19. Commitments

In 2009, Alberta Central extended its premises lease for a period of ten years, commencing on January 1, 2012 to December 31, 2021. The premises lease agreement provides for a renewal option for a further five years on the same terms and conditions. The future minimum lease payments for base rent related to the obligation under the non-cancellable operating lease are as follows:

No later than one year (2012)	$1,542
Later than one year and no later than five years (2013-2016)	6,361
Later than five years (2017 and thereafter)	8,555
Total future obligations under premises operating lease to 2021	$16,458

Alberta Central's lease payments are recognized as an expense in the year within property and equipment expenses in operating expenses on the consolidated statement of income and comprehensive income (Note 5).

	December 31	
	2011	2010
Minimum lease payments	1,548	1,558
Contingent rent	1,226	1,262
Total	**2,774**	**2,820**

Contingent rent payments on the premises lease are based on a pro rata share of the operating costs of the lease premises, which may increase or decrease annually.

Alberta Central has a ten year non-cancellable premises sublease agreement with Celero commencing on January 1, 2012 for future minimum lease payments for base rent totaling $8,598.

20. Related party transactions

Alberta Central has transactions with various related parties throughout the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year, Alberta Central charged CUPS various administrative, property rental, interest and float fees totaling $3,400 (2010 – $3,586). During the year, CUPS charged Alberta Central various interest, distribution and administrative fees totaling $489 (2010 – $365).

Alberta Central also contributed to a defined contribution plan on behalf of CUPS employees in the amount of $268 (2010 – $255) and to a defined benefit pension plan on behalf of a CUPS senior executive. The defined benefit pension contribution to be paid by Alberta Central is determined in accordance with the accounting requirements of IAS 19 "Employee benefits" and is described in Note 6. There is no contractual agreement or written policy for charging the net defined benefit cost to CUPS. Inter-entity transactions are eliminated upon proportionate consolidation.

CUPS has a line of credit at Alberta Central to a maximum of $10,000, which bears interest at the Canadian prime rate. At December 31, 2011, CUPS had drawn $nil (December 31, 2010 – $nil; January 1, 2010 – $nil) on the line of credit.

There were no transactions with CUETS during the year (2010 – no transactions).

Transactions with Celero

During the year, Alberta Central charged Celero $2,950 (2010 – $2,878) for various administrative and facilities services. Celero charged Alberta Central $1,453 (2010 – $1,423) for information technology services. At December 31, 2011, Alberta Central had a net payable of $284 to Celero (December 31, 2010 – a net payable of $201; January 1, 2010 – a net receivable of $145) in respect of operating activities.

Under a *Joint Venture Lender Agreement* dated December 17, 2007, Celero has a line of credit facility with Alberta Central to a maximum of $22,500 with interest payable monthly at the Canadian prime rate. The line of credit is payable based on total available cash flow within Celero. Under the terms of the same agreement, Celero also has a $5,000 overdraft facility with Alberta Central bearing interest at the Canadian prime rate. At December 31, 2011, Celero had drawn $2,200 (December 31, 2010 – $15,200; January 1, 2010 – $16,200) on the line of credit facility and $nil (December 31, 2010 – $nil; January 1, 2010 – $3,003) on the overdraft facility. The facilities are secured by a *General Security Agreement* over all assets of Celero. All liabilities of Celero remain a liability of each owner in proportion to its ownership interest.

Alberta Central is liable in proportion to its indirect interest in Celero's 49 percent subsidiary, Everlink Payment Services Inc. (Everlink), for all of Everlink's covenants and obligations under an *Asset Purchase Agreement* and ancillary agreements relating to Everlink's acquisition of switching assets. These covenants and obligations expire in 2012 and 2013, respectively.

Everlink has entered into agreements with Alberta Central, consisting of a line of credit to a maximum of $2,000 and an authorized overdraft facility to a maximum of $6,275 Canadian dollars and $100 US dollars. Celero has provided a guarantee on these agreements in proportion to its 49 percent shareholding in Everlink. At December 31, 2011 and 2010 and January 1, 2010, there were no draws against the line of credit or the authorized overdraft facility.

Transactions with Servus

As of December 31, 2011, Servus Credit Union Ltd. (Servus) owned 55.7 percent (December 31, 2010 – 54.7 percent; January 1, 2010 – 53.5 percent) of the total outstanding common share capital of Alberta Central. Due to the governance structure of Alberta Central, management has determined that Servus has significant influence, but not control, over Alberta Central. The outstanding balances with Servus included in Alberta Central's consolidated statement of financial position and consolidated statement of income and comprehensive income are as follows:

	December 31		January 1
	2011	2010	2010
Loans	67,356	8,783	57,432
Members' deposits	758,156	792,674	768,775
Membership dues rebate accrual	580	–	–
Common share capital	107,859	102,453	97,268
Interest income on loans	278	1,885	
Interest expense on members' deposits	8,166	4,251	
Membership dues	3,477	3,310	
Share dividends	1,058	1,598	

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Alberta Central and its proportionate interest in the CUPS joint venture. Key management is comprised of Alberta Central's executive management and assistant vice presidents (11.5 positions; 2010 – 12.5 positions). Their aggregate compensation for the year included:

	December 31	
	2011	2010
Salaries and other short-term employee benefits	2,258	2,560
Post-employment benefits	416	444
Long-term employee benefits	462	438
Termination benefits and retiring allowances	57	1,071
	3,193	**4,513**

Mortgage loans to key management personnel bear interest at rates ranging from 1.0 percent to 3.0 percent (2010 – 1.0 percent to 3.15 percent) and are secured by property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at year-end. The table below presents the outstanding balances and transactions with key management personnel related to mortgage loans:

	December 31 2011	2010
Balance, beginning of year	1,408	1,961
Advances	320	46
Repayments	(656)	(599)
Balance, end of year	**1,072**	**1,408**

	December 31 2011	2010
Remuneration paid to directors	101	99
Expenses paid on behalf of directors	112	106
	213	**205**

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $1 to $24 (2010 – $nil to $18), with an average of $8 (2010 – $8) per annum. The director remuneration policy in effect for 2011 did not change from the prior year.

Alberta Central's objectives when managing capital are to:

- comply with the capital requirements set by its regulators
- maintain a strong capital base to support the credit union system through the development of Alberta Central's business
- maintain a consistently strong credit rating and investor confidence
- balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate

Alberta Central's capital levels are regulated under guidelines issued by OSFI and Alberta Finance. These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. Federal regulation (OSFI) requires Alberta Central to maintain a borrowing multiple of 20:1 or less while provincial regulation requires Alberta Central to maintain a borrowing multiple of 15:1 or less.

For the years ended December 31, 2011 and 2010, Alberta Central's capital levels exceeded both regulatory and internal capital requirements. The table below summarizes the composition of regulatory capital:

	December 31		January 1
	2011	2010 [1]	2010 [1]
Common shares and share redemption liability	193,716	187,392	181,708 [2]
Retained earnings	49,719	40,982	33,819
Less:			
Prepaid expenses	416	194	232
Deferred income tax asset	3,504	6,243	7,329
Net after-tax unrealized losses on available-for-sale debt securities	3	–	30
Investment in an associate	4,081	–	–
Total regulatory capital	**235,431**	**221,937**	**207,936**

[1] *The regulatory capital calculation at December 31, 2010 and January 1, 2010 is based on Canadian GAAP as reported to OSFI and Alberta Finance. Therefore, these balances may differ from the related IFRS balances in these consolidated financial statements.*
[2] *Includes $15,878 of share redemption liability which qualifies as regulatory capital.*

22. Financial risk management

Alberta Central's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Alberta Central's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance.

Credit risk

Alberta Central takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for Alberta Central by failing to discharge an obligation. Credit exposures arise from investment activities that bring debt securities and derivatives into Alberta Central's securities and derivatives portfolios, lending activities that lead to loans, and deposits held with third party financial institutions. There is also credit risk in off-balance sheet financial instruments such as unfunded loan commitments and letters of credit.

Alberta Central, as the manager of the Alberta credit union system liquidity pool, is responsible to develop an earning asset base while providing for borrowing needs of Alberta credit unions and their members. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* which identifies a basic standard of investment quality. Alberta Central's fair value estimate of its holdings of ABCP represents management's best estimate of the current value of the instruments, taking into account changes in market rates and credit risk since their origination (Note 8). There have been no other significant changes in credit risk in securities from the prior year.

Alberta Central's lending function focuses on the provision of loans to member credit unions and is closely integrated and coordinated with Alberta Central's liquidity management role. In addition, all of Alberta Central's commercial lending is provided on a syndicated basis with credit unions. Alberta Central or an individual credit union may be positioned as the lead lender for any commercial loan. Approval for all syndicated loans is obtained from the Credit Union Deposit Guarantee Corporation (CUDGC). Alberta Central's credit risk exposure related to its commercial lending function is mitigated where it is not the lead lender, as management performs its own monitoring of its commercial loan portfolio. In addition, total commercial loans, leases, guarantees, investments in mortgage pools and investments in non-credit union borrowing members shall not exceed 150 percent of Alberta Central's members' equity as at the end of the previous fiscal year.

Alberta Central structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are subject to an annual or more frequent review by management, when considered necessary.

Alberta Central employs and is committed to a number of important principles to manage credit exposures, which include:

- a Credit Committee whose duties include approval of lending policies, establishment and delegation of loan limits and approval of larger credits
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management personnel prior to recommendation to the Credit Committee
- employment of personnel engaged in credit granting who are qualified and experienced in lending
- lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment
- annual reviews of loans
- independent reviews by Alberta Central's internal audit group, which includes reporting the results to senior management and Alberta Central's Audit and Finance Committee

The following tables show Alberta Central's total lending exposure to credit risk, by industry and by portfolio, without taking account of any collateral held or other credit enhancements.

Credit Risk Exposure by Industry

			December 31 2011	December 31 2010	January 1 2010
	Outstanding	Undrawn commitments	Total exposure	Total exposure	Total exposure
Real estate	119,780	2,051	121,831	99,846	114,197
Hospitality	38,054	–	38,054	42,912	34,470
Finance and insurance	71,108	1,311,481	1,382,589	1,398,812	1,196,501
Health care	23,667	2,089	25,756	28,028	37,736
Retail	2,209	21,943	24,152	25,352	21,520
Technology	6,044	40,933	46,977	46,977	46,112
	260,862	**1,378,497**	**1,639,359**	**1,641,927**	**1,450,536**

Credit Risk Exposure by Portfolio

			December 31 2011	December 31 2010	January 1 2010
	Outstanding	Undrawn commitments	Total exposure	Total exposure	Total exposure
Credit unions	67,500	1,306,481	1,373,981	1,389,260	1,186,152
Commercial loans and mortgages	181,908	34,083	215,991	208,718	223,695
Cooperatives	2,935	23,000	25,935	26,445	22,612
Celero	6,044	14,933	20,977	14,477	13,611
Employee mortgages	2,475	–	2,475	3,027	4,466
	260,862	**1,378,497**	**1,639,359**	**1,641,927**	**1,450,536**

Collateral for the lending portfolio generally is as follows:

- credit unions: general security agreements with eleven of the largest credit unions and from the remainder of the credit unions a security agreement over their accounts and instruments
- commercial loans and mortgages: secured primarily by real estate, as well as a personal or corporate guarantee with a loan to value ratio of 65 percent to 70 percent at origination of the loan
- cooperatives: secured by real estate
- Celero: general security agreement
- employee mortgages: secured by the residence

Alberta Central considers all loans two months or more in arrears to be past due. At December 31, 2011 and January 1, 2010, there were no past due unimpaired loans. At December 31, 2010, there was one loan in the amount of $4,925 that was past due but not impaired. Collateral held against this past due loan was commercial real estate with a fair value of $6,654. This loan was subsequently brought current and remained current during 2011.

Impaired loans consisted of the following:

	2011		
	Commercial loans and mortgages	Cooperatives	Total
Net impaired loans, beginning of year	14,824	–	14,824
Increase in impaired loan accrued interest	855	–	855
Increase in specific loan loss provision	(10,776)	–	(10,776)
Net impaired loans, end of year	**4,903**	**–**	**4,903**

In 2010, a specific loan provision was taken on a cooperative loan. In December 2011, the cooperative loan was repaid and $393 specific loan loss provision recognized in the prior year was reversed.

	2010		
	Commercial loans and mortgages	Cooperatives	Total
Net impaired loans, beginning of year	–	–	–
Impaired loan designated during the year	15,324	393	15,717
Increase in impaired loan accrued interest	807	–	807
Increase in specific loan loss provision	(1,307)	(393)	(1,700)
Net impaired loans, end of year	**14,824**	**–**	**14,824**

Alberta Central's commercial loans and mortgages credit portfolio is 96.7 percent (December 31, 2010 – 96.1 percent; January 1, 2010 – 95.5 percent) concentrated in Alberta and remains diversified across the industry sectors presented in the table below:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Outstanding	% of total	Outstanding	% of total	Outstanding	% of total
Real estate	119,780	45.9%	98,373	50.6%	104,328	42.0%
Hospitality	38,054	14.6%	42,912	22.1%	30,222	12.2%
Finance and insurance	71,108	27.3%	16,892	8.7%	83,767	33.7%
Health care	23,667	9.0%	13,083	6.7%	17,845	7.2%
Retail	2,209	0.9%	12,688	6.5%	1,429	0.6%
Technology	6,044	2.3%	10,377	5.4%	10,710	4.3%
	260,862	100.0%	194,325	100.0%	248,301	100.0%

Alberta Central is party to financial instruments with off-balance sheet risk that, in the normal course of operations, are used to meet its own and its credit union members' financial needs. These instruments include commitments to extend credit, standby letters of credit and financial guarantees. Alberta Central's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

	December 31 2011	2010	January 1 2010
Cash at other financial institutions	38,969	57,334	42,212
Securities	1,868,685	1,800,156	1,727,957
Derivatives	12,181	16,611	20,427
Accounts receivable and other assets (Note 12)	2,610	4,224	12,054
Loans outstanding and undrawn commitments	1,639,359	1,641,927	1,450,536
Standby letters of credit and financial guarantees	10,163	8,491	11,315
	3,571,967	3,528,743	3,264,501

The credit quality of the securities can be assessed by reference to the rating system of DBRS, Moody's Corporation or Standard & Poor's Corporation. Alberta Central's *Investment Policy* states that the statutory investments held must be rated at least R-1 or P-1 for commercial paper and A for bonds. The credit risk related to equity investments in affiliates and cooperatives is limited as the *Credit Union Act of Alberta* restricts Alberta Central's investment in such entities to 10 percent of members' equity.

The average term of commitments is one year. In the normal course of operations, these commitments may expire without being utilized.

Alberta Central enters into various derivative contracts in the normal course of its business, including interest rate swaps, call options, index options and foreign exchange forwards. The instruments are used to meet the needs of member credit unions. Other than credit risk, Alberta Central does not accept any net market risk exposure to derivative contracts entered into on behalf of member credit unions as it enters into offsetting contracts with other financial institution counterparties. Derivative assets and liabilities are marked to market with net changes in value recorded in net income.

The following table shows details of Alberta Central's derivative financial instruments:

Favourable Contracts

	December 31					
	2011		2010		January 1 2010	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps	174,751	5,773	166,965	4,200	260,300	7,481
Call options	–	–	–	–	15,000	–
Index options	92,816	6,408	74,131	12,411	77,410	12,946
	267,567	**12,181**	**241,096**	**16,611**	**352,710**	**20,427**

Unfavourable Contracts

	December 31					
	2011		2010		January 1 2010	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps	174,751	5,773	166,965	4,200	260,300	7,481
Call options	–	–	–	–	15,000	–
Index options	92,816	6,408	74,131	12,411	77,410	12,946
	267,567	**12,181**	**241,096**	**16,611**	**352,710**	**20,427**

The weighted-average interest rate paid on interest rate swaps was 1.85 percent (2010 – 1.70 percent). The weighted-average interest rate received on interest rate swaps was 3.49 percent (2010 – 3.65 percent).

On July 5, 2011, Alberta Central entered into a *Credit Support Annex*, which requires Alberta Central to pledge cash to the extent the net value of swaps with a certain major Canadian financial institution decreases below a specified level. Cash and items in transit on the consolidated statement of financial position includes $770 of cash pledged with the financial institution. The posted cash collateral with the financial institution earns interest at an annual rate equal to the weighted average of rates on overnight general collateral repo transactions conducted through designated interdealer brokers; the average rate for 2011 was 1.0 percent.

All non-credit union counterparties are with major Canadian financial institutions rated AA or higher. Under its *Investment Policy*, Alberta Central has established trading limits for each institution.

Liquidity risk

Liquidity risk is the risk that Alberta Central will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. Alberta Central's sources of funding are deposits from member credit unions, its commercial paper program and lines of credit with Central 1.

The majority of deposits from member credit unions are required by regulation as Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that the total liquidity deposits and share capital with Alberta Central comprise nine percent of the credit union's liabilities.

As discussed in Notes 8 and 16, effective July 6, 2011, Alberta Central, Central 1 and the credit union centrals of Manitoba and Saskatchewan entered into a new group clearing arrangement under the terms of the *Credit Union System Group Clearing Agreement*. The participating centrals also entered into the *Inter-Central Liquidity Agreement*, which replaces the former *National Liquidity Fund Agreement*. The *Inter-Central Liquidity Agreement* provides emergency liquidity to a participating central in the form of a loan through a multi-lateral credit facility, whereby Alberta Central has committed $400,000. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of six percent of its provincial system's assets in certain qualifying liquid assets. Under the former *National Liquidity Fund Agreement*, Alberta Central was required to keep two percent of its provincial system's assets in segregated accounts of liquid assets and a further four percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The required balance in qualifying liquid assets under the *Inter-Central Liquidity Agreement* and provincial legislation at December 31, 2011 was $1,128,407 (December 31, 2010 – $1,090,370; January 1, 2010 – $1,047,522). Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of the requirements under the *Inter-Central Liquidity Agreement* and those under provincial legislation.

Contractual maturities for financial liabilities are shown in the table below:

	Within 3 months	From 3 months to 1 year	From 1 to 5 years	Greater than 5 years	Total
Members' deposits	1,173,716	666,380	–	–	1,840,096
Loans and notes payable	101,381	–	–	–	101,381
Derivative financial liabilities	1,037	16	11,128	–	12,181
Other liabilities	8,372	–	–	–	8,372
December 31, 2011	**1,284,506**	**666,396**	**11,128**	**–**	**1,962,030**
December 31, 2010	**1,499,383**	**341,718**	**16,519**	**–**	**1,857,620**
January 1, 2010	**1,497,544**	**345,865**	**24,270**	**–**	**1,867,679**

Market risk

Market risk is comprised of three types of risk: foreign exchange risk, interest rate risk and other price risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under Alberta Central's *Investment Policy*, which limits amounts that can be maintained in various currencies. At December 31, 2011, Alberta Central's net exposure to the US dollar was $98 (December 31, 2010 – $179; January 1, 2010 – $(3,540)), to the UK Pound Sterling was $371 (December 31, 2010 – $604; January 1, 2010 – $403), and to the Euro was $58 (December 31, 2010 – $206; January 1, 2010 – $130).

The impact of a 100 basis points (bps) increase or decrease in the Canadian dollar against the US dollar, UK Pound Sterling and the Euro on Alberta Central's net income does not exceed $4 (December 31, 2010 – $6; January 1, 2010 – $35).

Interest rate risk

Interest rate risk is the risk that net interest income will be adversely impacted by changes in market interest rates. This risk occurs as a result of disparity in the re-pricing dates and basis (e.g., the benchmark interest rate) of interest rate sensitive financial assets, derivatives and interest rate sensitive financial liabilities. Alberta Central is exposed to interest rate risk related to the Canadian prime rate, Canadian bankers' acceptance rate, Canadian bond rate, Canadian prime corporate paper rate, Government of Canada Treasury curve (up to one year), Government of Canada bond curve (up to five years), Canadian Dealer Offered Rate (CDOR), US prime rate and US London Interbank Offer Rate (LIBOR). Alberta Central uses gap analysis and simulation modeling to monitor and manage interest rate risk. Gap analysis measures the difference between the amount of assets and liabilities that re-price in a particular time period.

Alberta Central's interest rate sensitivity position at December 31, 2011, as presented in the following tables, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals. As Alberta Central's holdings of ABCP were converted to floating rate notes (Note 8), the related assets have been grouped in the 'within three months' category, as the interest rates re-price during that time period.

	Within 3 months	From 3 months to 1 year	From 1 to 5 years	Greater than 5 years	Non-Interest Sensitive [1]	Total
Assets						
Cash and items in transit	39,147	–	–	–	28,709	67,856
Securities	1,181,817	742,962	–	–	(56,094)	1,868,685
Loans	102,967	67,734	79,018	11,143	(11,370)	249,492
Other assets	–	–	–	–	8,727	8,727
Derivative financial assets	–	16	5,757	–	6,408	12,181
	1,323,931	810,712	84,775	11,143	(23,620)	2,206,941
Weighted average interest rate	1.09%	1.40%	5.00%	4.09%	–	1.38%
Liabilities and Members' Equity						
Members' deposits	1,158,668	666,380	–	–	15,048	1,840,096
Loans and notes payable	101,355	–	–	–	26	101,381
Other liabilities	–	–	–	–	8,372	8,372
Derivative financial liabilities	–	16	5,757	–	6,408	12,181
Members' equity	193,716	–	–	–	51,195	244,911
	1,453,739	666,396	5,757	–	81,049	2,206,941
Weighted average interest rate	0.85%	1.08%	2.87%	–	–	0.89%
Total interest rate sensitivity gap	(129,808)	144,316	79,018	11,143	(104,669)	–
Cumulative interest rate sensitivity gap	**(129,808)**	**14,508**	**93,526**	**104,669**	**–**	**–**
December 31, 2010	**89,547**	**26,411**	**110,698**	**111,533**	**–**	**–**
January 1, 2010	**68,219**	**(24,755)**	**110,879**	**114,331**	**–**	**–**

[1] *Provisions and fair value adjustments are included as non-interest sensitive.*

The following represents Alberta Central's interest rate risk position:

	December 31 2011	December 31 2010	January 1 2010
Impact on market value of members' equity from:			
Increase in interest rates of 100 basis points	(2,670)	(1,928)	(3,162)
Increase in interest rates of 200 basis points	(5,261)	(3,786)	(6,219)
Decrease in interest rates of 100 basis points	2,753	2,003	3,272
Decrease in interest rates of 200 basis points	5,593	4,083	6,661

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central's most significant other price risk relates to its holdings of ABCP (Note 8). Alberta Central manages its other price risk by adhering to an *Investment Policy*.

23. Fair value of financial instruments

The fair value of Alberta Central's financial instruments is determined as follows:

- ABCP – determined using a probability weighted discounted cash flow valuation model, as described in Note 8
- held for trading and available-for-sale securities – based on quoted market prices
- held to maturity securities – based on discounted cash flow model using market rates for similar securities
- loans receivable, members' deposits, and loans and notes payable – based on discounted cash flow model using market interest rates for similar instruments
- share redemption liability – based on redemption price, which equals par value
- derivative financial instruments – based on recent market transactions for similar derivative instruments or if recent market transactions are not available, based on discounted cash flow model

The fair value of certain unquoted equity securities classified as available-for-sale securities cannot be reliably measured because trading is restricted, no market exists and they are issued by CUCC or other co-operative entities, or prices from recent market transactions are not available. Therefore, fair value information has not been disclosed and these securities are carried at their cost of $5,484 (December 31, 2010 – $12,597; January 1, 2010 – $12,700). Alberta Central holds one available-for-sale equity security which does not have a quoted market price in an active market; however, it is recorded at its fair value of $4,510 (December 31, 2010 – $4,510; January 1, 2010 – $4,510) based upon the most recent transaction. Alberta Central has no plans to dispose of these securities as of the year-end.

The fair value of cash and items in transit, accounts receivable, accounts payable and accrued liabilities, and loans and notes payable approximates their carrying value due to their short-term nature.

The fair value and related carrying value of all financial instruments, excluding those whose fair value and carrying value are the same or are presented at fair value in the consolidated financial statements, have been summarized below:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Held to maturity securities	–	–	70,384	69,962	196,177	197,674
Loans	249,492	253,869	192,967	195,951	248,221	253,199
Financial liabilities						
Members' deposits	1,840,096	1,841,321	1,810,370	1,810,868	1,798,503	1,799,255

Financial instruments measured at fair value on the consolidated statement of financial position must be classified within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the hierarchy are:

. level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
. level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
. level 3 – inputs that are not based on observable market data

Financial assets at fair value at December 31:

	Level 1	Level 2	Level 3	Total
Cash and items in transit	67,856	–	–	67,856
Securities				
Held for trading	–	106,407	128,254	234,661
Available-for-sale	–	1,629,281	–	1,629,281
Derivative financial assets	–	9,081	3,100	12,181
December 31, 2011	**67,856**	**1,744,769**	**131,354**	**1,943,979**
December 31, 2010	**65,646**	**1,610,646**	**130,978**	**1,807,270**
January 1, 2010	**51,979**	**1,399,928**	**134,071**	**1,585,978**

Financial liabilities at fair value at December 31:

Derivative financial liabilities	**–**	**9,081**	**3,100**	**12,181**
December 31, 2010	**–**	**7,841**	**8,770**	**16,611**
January 1, 2010	**–**	**10,354**	**10,073**	**20,427**

24. Merger discussion

On October 17, 2011, Alberta Central and Central 1 announced the initiation of merger discussions with the objective of enhancing core services to more than 190 credit unions in British Columbia, Alberta and Ontario. During this process, the centrals will evaluate whether an opportunity exists through consolidation, to achieve efficiencies, offer a stronger liquidity structure, greater diversification of funding sources and better capacity in the areas of finance, payments and trade services. Any proposal to merge would be subject to the approval of regulatory authorities, boards of directors and shareholders of both Centrals.

We support credit unions in meeting the expectations of members through the leadership and excellence of our people, products and services.

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CORE VALUES

The four pillars around which our core values are built are our members, people, the cooperative system and the community.

OUR MEMBERS

Our members, credit unions, and cooperatives are the essence of our existence.

Our success is measured by the success of our members. We are committed to delivering services that fill their real needs and provide superior value.

We are part of a dynamic industry. Through leadership and innovation we meet the evolving needs of our members in a highly responsive manner.

We strive to be an example to and protect the interests of our members by operating in a financially prudent and efficient manner.

OUR PEOPLE

Our key resources are our people. Our dealings with them reflect fairness, equity, and integrity.

Our people perform their roles in a professional, enthusiastic, innovative, and service-oriented manner.

We are committed to attracting and retaining competent management and staff.

Our people are committed to continuous improvement and realize their full potential through work experience, training, education and career management.

Open discussion, teamwork, and joint problem solving are key to our decision making. Constructive differences of opinion are healthy and encouraged.

THE COOPERATIVE SYSTEM

We participate in a national system of credit unions, having the highest regard for cooperative principles and the values of mutual respect and support.

We represent Alberta credit unions at the national level through active and influential participation.

We support and promote the development of cooperative organizations by providing resources whenever appropriate.

We are committed to seeking mutually-beneficial business relationships with other cooperatives beyond the credit union system.

THE COMMUNITY

Our professionalism results in business relationships reflecting leadership, integrity, and responsibility.

We maintain positive and professional working relationships with provincial and national legislators and regulators in order to best serve the interests of our members.

Our commitment is to contribute to the social, economic, and environmental well-being of the communities in which we work.

In 2011, Alberta credit unions contributed more than $4 million in charitable donations.

HELPING OUR COMMUNITIES. MAKING A DIFFERENCE.

For credit unions, community outreach initiatives characterize the core focus of daily operations. Credit unions, anchored in the communities they serve, place significant value on providing resources needed to help communities achieve success. Through financial donations, volunteerism, services and scholarships for local and international initiatives and charitable organizations, Alberta credit unions' community spirit is unique in that it is guided by the cooperative principles of social responsibility and helping others. Like our credit union members, Alberta Central also plays an active role in building strong and vibrant communities. Through charitable donations and organizational fundraising initiatives, our employees, management and board members believe in helping communities across Alberta and the world.

In 2011, Alberta Central and our member credit unions demonstrated community support through various initiatives. The following highlight some of those efforts.

HEART ALERT PROJECT

In 2011, Alberta Central finished a three-year financial commitment on behalf of Alberta's credit unions to the *Heart Alert Project* as part of the Libin Cardiovascular Institute of Alberta. The project provides life-saving intervention for hundreds of rural heart patients in Alberta guaranteeing quicker access to life saving care. Alberta Central's support made it possible to equip 111 EMS vehicles at 31 hospitals with the digital equipment required to treat rural patients.

ALBERTA CENTRAL SUPPORTS INTERNATIONAL YEAR OF CO-OPERATIVES

In preparation for the 2012 International Year of Co-operatives (IYC), the Canadian Co-operative Association (CCA), in November 2010, approached 23 of its members to support Canadian initiatives for the IYC. In 2011, Alberta Central, on behalf of its member credit unions, donated $75,000 to help the CCA promote the significance of the IYC in the areas of communications, government relations and celebratory events.

SERVUS YOUNG LEADERS NETWORK

The Servus Young Leaders Network offers young employees several avenues for networking and professional development. The program includes a dynamic team of credit union professionals under the age of 35 who demonstrate the cooperative principles credit unions were founded on. Through mentorship and proactive personal development, the group aims to expand their involvement to include community initiatives, corporate proposals/projects and networking positively throughout the credit union system.

In 2011, the network opened an online social networking site used to help engage and connect all employees and leaders throughout Servus. The past year also saw the creation of Servus' Young Leaders Network National Scholarship Program, which is tied to Credit Union Central of Canada's Young Leader Award. The group also successfully completed the first 35 Under 35 Leadership Retreat – a two-day interactive learning session bringing in 35 young leaders of various positions, age, and locations with instruction on various topics relevant to young leaders.

BOW VALLEY CREDIT UNION – WILD ROSE HOCKEY CHALLENGE IN SUPPORT OF VICTIM SERVICES

Recognizing that services provided by victim assistance charities are often not as visible as other charities, Bow Valley Credit Union, for the second year, acted as title sponsor for the Wild Rose Hockey Challenge. The hockey challenge, consisting of federal MPs, provincial MLAs and professional hockey players, raised funds for non-profit and volunteer-based victim services groups that provide support to victims of crime and/or tragedy. As title sponsor, Bow Valley Credit Union donated $10,000, sold tickets to the game and donated merchant services for the silent auction that resulted in raising a record-breaking $83,000.

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BOW VALLEY CREDIT UNION – WILD ROSE HOCKEY CHALLENGE IN SUPPORT OF VICTIM SERVICES

Recognizing that services provided by victim assistance charities are often not as visible as other charities, Bow Valley Credit Union, for the second year, acted as title sponsor for the Wild Rose Hockey Challenge. The hockey challenge, consisting of federal MPs, provincial MLAs and professional hockey players, raised funds for non-profit and volunteer-based victim services groups that provide support to victims of crime and/or tragedy. As title sponsor, Bow Valley Credit Union donated $10,000, sold tickets to the game and donated merchant services for the silent auction that resulted in raising a record-breaking $83,000.

At Alberta Central our goal is to be a key strategic partner for Alberta credit unions. Through our services, affiliates, joint ventures, and with the help of our dedicated employees, we continue to work with our credit unions to help our system grow, prosper and achieve financial success.

SERVICES

Lending
- credit union loan program
- commercial loan syndication program
- mortgage pooling
- agricultural, commercial, residential and consumer lending support
- development and marketing of operational manuals
- liaison for provincial and national lending committees, legislation and task forces

Treasury
- liquidity and investment management
- foreign exchange
- derivative strategy
- asset liability management

Risk Management
- system representation on national and industry risk committees
- management of system fraud awareness and loss prevention training
- master policy holder for master bond program
- risk management support for the system

Audit
- internal audit services
- credit union audit services

Central Purchasing
- environmentally-focused local and national product sourcing and procurement
- inventory management and distribution
- banking, promotional and service award products
- discount programs
- direct mail services

Government Relations/ Strategic Planning/ Communications
- facilitation of system strategic planning and decision making
- provincial and federal government relations support and advocacy
- system representation on national and industry committees and affiliate organizations
- management of system communication programs

CUPS Payment Services
- image-based cheque and deposit processing services
- remittance and lockbox processing
- paper and electronic lead bank processing
- electronic bill payment processing
- paper and electronic statement processing services
- integrated document imaging and records management services
- customer automated funds transfer (CAFT) and automated funds transfer (AFT)
- wire transfer payments
- ATM/POS settlement and reconciliation
- distribution and mailroom services
- cash processing services

Celero Solutions

Celero's eroWORKS product suite includes:

- eroWORKS Retail Banking core platform
- asset liability management
- loans participation module
- customer relationship management (cView)
- digital report view and archive (e-Report and e-Retrieval)
- safety deposit box
- optimize training, reporting and consulting
- hot card services

Celero's eroSERVE complete business and financial technology services include:

- Internet banking, powered by MemberDirect Services, including mobile services telephone banking
- loans origination system
- switch transactions
- risk management tools, such as anti-money laundering and fraud detection, disaster recovery, monitoring and intrusion prevention
- application and hosting services
- applications integration
- messaging, including e-mail and smart phone (BlackBerry) services
- network services including local (LANS), wide area (WANS), metropolitan area (MANs), and virtual private network (VPN) solutions and internet service provider (ISP) services
- network application trouble detection and analysis services
- custom product and application development
- high-availability infrastructure and data centres managed by IBM
- desktop computing
- business solutions consulting
- client care services
- member support services, delivered by Sonoma Technical Support

ALBERTA CENTRAL AFFILIATES

Joint Ventures

Celero

- Employees: 261
- Clients: Over 160
- Annual Operating Budget: Approximately $80 million
- Owners: Alberta Central (31.4%), Credit Union Central of Manitoba, SaskCentral, Concentra Financial

CUPS Payment Services

- Employees: 150
- Clients: Over 145 credit unions, corporations and other financial institutions
- Transactions Processed: Over $140 million
- Owners: Alberta Central (50%), SaskCentral

Affiliate Investment

CUCC

- Employees: 67
- Net Trade Division Assessment: $8,925,408
- Owners: Provincial centrals (Alberta Central 14.4%) and other members

Concentra Financial

- Employees: 363
- Assets Under Administration: $23.4 billion
- Corporate Assets: $3.6 billion
- Owners: Provincial centrals (Alberta Central 3.0%), credit unions, CUMIS, The Co-operators

Credential Financial Inc.

- Employees: 208
- Credit Union Partners: 225 across Canada
- Assets Under Administration: $11.5 billion
- Owners: Provincial centrals (50%; Alberta Central 6.5%), CUMIS (50%)

Northwest & Ethical Investments L.P. (NEI)

- Employees: 95
- Assets Under Management: $4.5 billion
- Owners: Provincial centrals (50%; Alberta Central 6.5%), Desjardins Group (50%)

Alberta Central is committed to practicing good governance through full disclosure of our corporate governance practices, proper and efficient management of our organization's resources, and maintaining accountability of our board or directors, management and employees.

BOARD OF DIRECTORS

Alberta Central's board is comprised of thirteen directors who represent four credit union regions. Two of the regions are determined geographically (North and South) and two regions are comprised of the largest credit unions in Alberta (Servus and First Calgary Financial).

Director Entitlement

Region A: 5
Servus

Region B: 2
First Calgary Financial

North Region: 3
Battle River, Beaumont, Christian, Eckville, Edson, Cassie Horizon, Lakeland, Rivers, Cdn, Rocky, S.G.F., University Hospital, Vermilion, Wainwright, Wetaskiwin

South Region: 3
1st Choice, Bow Valley, Calgary Police, Canada Safeway, CHEC, Chinook, City Plus, Inglewood, Khalsa, Legacy Savings, Lethbridge Legion, Mountain View, Pegasus, Pincher Creek, Shell, Stanco, Transcanada

Director Roles and Responsibilities

The board of directors, representing Alberta credit union members, is responsible for overseeing the management of Alberta Central, providing recommendations and approval of strategic plans, and ensuring the interests of Alberta Central and the credit union system are represented. The role and responsibilities of Alberta Central's board and the president and chief executive officer are outlined in Alberta Central's corporate policies, by-laws and terms of reference for each board standing committee.

Board Committees

Alberta Central's board has standing committees responsible for both legislated and delegated functions. The committees are comprised of Alberta Central directors, and management acts as a resource for the committees. Each committee meets regularly throughout the year and is required to provide timely and regular reports to the board of directors.

The chair of the Alberta Central's board is also the chair of the Executive Committee. For the remaining committees, the chairs are elected by the directors of the respective committees.

Executive Committee

The Executive Committee is comprised of the four table officers of the board of directors (chair, first vice-chair, second vice-chair and secretary) and the past chair or other person elected to fill the fifth position on the committee. This committee has three primary functions which include managing the performance review process and compensation of the president and chief executive officer on an annual basis, reviewing the board meeting agenda and acting as a sounding board on relevant issues, as well as appointing directors to the remainder of the committees. In making these appointments, the committee takes into consideration the relevant background and expertise of board members, the expressed interest and development needs of board members, and the need for a diversity of experience on the committees. Effective following the 2012 annual general meeting, it is proposed that the Executive Committee be eliminated and its responsibilities reallocated to the Governance Committee and/or the board as a whole.

Credit Committee

The Credit Committee is comprised of four directors. The committee has oversight responsibility for Alberta Central's lending activities in accordance with Alberta Central's *Lending Policy*. This includes reviewing and recommending to the board of directors changes to the policy, monitoring performance against the policy, and approving loans that exceed management limits. Effective following the 2012 annual general meeting, it is proposed that the Credit Committee be replaced by a Management Credit Committee.

Governance Committee
The Governance Committee is comprised of four directors. The committee has oversight responsibility for Alberta Central's corporate policies and governance practices. Every two years, the committee ensures that board standing committees' terms of reference, Alberta Central's board remuneration policy and Alberta Central's other corporate policies are reviewed and updated as required. The Governance Committee also ensures that a board self-assessment process is conducted every year in order to maximize the effective functioning and performance of the board, and is responsible for making recommendations to the board to address any issues identified through the self-assessment process. This committee remains informed of best practices in corporate governance and makes recommendations to the board to continually improve Alberta Central's governance practices.

Audit and Finance Committee
The Audit and Finance Committee is comprised of four directors. The committee has oversight and responsibility for the *Investment Policy* and *Enterprise Risk Governing Policy* and provides oversight of Alberta Central's internal audit function. The committee meets directly with and reviews reports prepared by internal and external auditors (as required), and ensures compliance with Alberta Central's bylaws and financial policies. The committee is also responsible for reviewing and recommending to the board the audit mandate and annual audit plan, as well as Alberta Central's financial, risk management and treasury reports, and the annual budget.

Conduct Review Committee
The Conduct Review Committee is comprised of the same four directors as the Audit and Finance Committee, and the chair of the committee is the same as that of the Audit and Finance Committee. To ensure compliance with the requirements of the Cooperative Credit Associations Act of Canada with respect to related party transactions, the committee was established to provide oversight and responsibility for managing compliance with the Cooperative Credit Associations Act of Canada. All related party transactions of board members and executive management are reviewed by the Conduct Review Committee, which is responsible for reporting any violation of related-party rules to OSFI.

Internal Controls
Alberta Central's internal audit team, under the direction of the board's Audit and Finance Committee, periodically assesses the effectiveness of internal control procedures. As part of Alberta Central's regulatory compliance self-assessment procedures, an independent audit of compliance reports prepared by Alberta Central's chief compliance officer is reviewed on an annual basis. The findings and recommendations of the internal audit team are reported to Alberta Central management and the Audit and Finance Committee to ensure appropriate internal controls are in place, and continued compliance with applicable regulatory requirements.

Risk Management
To effectively manage risk, the board has established an *Enterprise Risk Governing Policy*, *Lending Policy* and *Investment Policy*. On an annual basis, the Audit and Finance Committee and Credit Committee review and make recommendations to the board of directors on these policies. The Investment Policy provides for an asset liability committee (ALCO) comprised of management, which meets on a quarterly basis to formally review Alberta Central's investment and lending portfolio management and compliance to policy. A Management Risk Committee, comprised of the executive management team, regularly assesses the key risks Alberta Central faces and updates the board on its risk assessments.

Conduct and Accountability
Alberta Central has policies and procedures that promote professional and ethical behaviour. Alberta Central's policies outline the standards of conduct that employees must adhere to in performing their duties for the organization. On an annual basis, Alberta Central's employees are required to review and certify their understanding of and compliance with the specified business conduct policies. Alberta Central's directors annually complete an oath of office and conflict of interest declaration, which outlines their obligations with respect to standards of conduct, confidentiality of Alberta Central business matters, and related party transaction rules.

Disclosure of Governance Practices
Developments in corporate governance in Canada for public companies require a full disclosure of corporate governance practices, and the Ontario Securities

Commission has published a disclosure guideline specific to this requirement. In accordance with the developments in corporate governance best practices, Alberta Central now discloses its governance practices in its annual report.

Board Independence
Alberta Central's board is comprised entirely of independent, non-employee directors. In furthering the independence of its directors, Alberta Central's board meets independently of management as part of every scheduled meeting. The board also meets with the external auditor, without management present, at least annually and the internal audit function also has direct access to the board's Audit and Finance Committee. The board may independently engage outside professional advisors and is empowered to do so by Alberta Central's bylaws.

Board Self-Assessment
The board conducts an annual self-assessment process to evaluate the effectiveness of the board as a whole. Alberta Central's executive management team participates in the board assessment process – at the invitation of the board – to provide input and recommendations on board effectiveness and process. This year, the board also conducted a director skills self-assessment survey based on the recommendation of the Governance Committee. The data received from this report will be used by the committee to discuss skill gaps in the board and assist the committee in making recommendations with respect to board recruitment and development processes.

Director Remuneration
Directors receive remuneration in the form of monthly honoraria, per diem fees for attendance at board meetings and compensation for travel time and expenses. The total remuneration and expenses paid to Alberta Central directors is disclosed in note 20, Related Party Transactions.

Director Orientation and Development
All directors participate in an orientation session upon appointment to the board to assist them in carrying out their roles and responsibilities as directors. Each director is provided with the opportunity and budget to attend courses, seminars and conferences of their choice for professional development activities relevant to their role on Alberta Central's board.

BOARD OF DIRECTORS

Raymond Coates
Board Chair
North Region

Alison Starke
First Vice-Chair
Region A

Garth Yeomans
Second Vice-Chair
North Region

Bob Petryk
Secretary
Region B

Ken Morris
Fifth Executive Committee Member
North Region

Perry Dooley
Region A

Ian Glassford
Region A

Paul Kelly
Region B

Maurice Landry
South Region

Taras Nohas
Region A

Darcy Peelar
Region A

John Richter
South Region

John Stutz
South Region

MANAGEMENT TEAM

Graham Wetter
President and CEO

Anne Gillespie
Chief Financial Officer

Duane Blahun
Vice President, CUPS Payment Services

Paul Rossmann
Vice President, Strategy and Corporate Development

Sean Lesy
Vice President, Financial Services

Susan Borrows
Assistant Vice President, Human Resources

Peter Davis
Assistant Vice President, Government Relations

Pat Dolan
Assistant Vice President, Treasury

Greg Feniak
Assistant Vice President, Relationship Management and Sales, CUPS

Catherine Heggerud
Assistant Vice President, Strategy and Credit Union Engagement

Chris Laxton
Assistant Vice President, Risk Management and Internal Auditor

Francine Soko
Assistant Vice President, Operations, CUPS

Patricia van de Sande
Assistant Vice President, Regulatory Compliance

Susan Greenaway
Corporate Secretary

Shannon Rennie
AVP and Corporate Counsel

ALBERTA CREDIT UNIONS ARE MEMBER-OWNED

- Credit unions are full-service organizations that offer a competitive range of financial products and services to consumers, small and medium businesses, as well as agribusinesses.
- A credit union member is both a customer and shareholder who participates in electing their credit union's board of directors and shares in the profits earned through share or patronage dividends.
- Credit unions share a common vision of working together and contributing to society, thereby making their communities better places to live.

ALBERTA CREDIT UNIONS TODAY

- Credit unions have loans of over $16 billion to Albertans, and a deposit base exceeding $17 billion.
- With 34 credit unions, 203 branches and 273 ATMs, credit unions offer Albertans access to one of the largest banking networks in the province.
- One out of six Albertans are credit union members.
- Approximately 3,400 Albertans are employed full-time by credit unions.
- Credit unions returned almost $67 million in patronage and share dividends to Alberta members in 2011.

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AlbertaCentral
Credit Union Central Alberta Limited